Report for Lancaster City Council

Climate Change Local Plan Review

Viability Assessment – Main Report - May 2021

Three Dragons
Enhabit
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Erratum:
This report has been re-issued in November 2021 following identification of an error in the text in para 5.41.
There is a ~~1 – 3 year~~ lead in time prior to a start in construction with first sales at 9 months. It is assumed that build costs are in line with house sales minus 6 months and that policy and mitigation costs will be spread evenly, in line with build costs.

This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and is based on district level data supplied by Lancaster City Council, consultant team inputs and quoted published data sources. The toolkit provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

The assessment has been undertaken following national and professional standards, with objectivity, impartially, without interference and with reference to all appropriate available sources of information. No performance related or contingent fees have been sought.

CONTENTS

EXECUTIVE SUMMARY

1. Three Dragons, with expert assistance from Enhabit and Ward Williams Associates, have been commissioned by Lancaster City Council to provide viability advice regarding potential policies to be brought forward through the Lancaster Climate Change Local Plan Review. The main aim of this report is to update the previous evidence, reflecting any changes in guidance and legislation and to test the impact of proposed new policies aimed at strengthening the council's position in respect of new development and the climate emergency.

2. This work also includes a review of options around improving new buildings to meet the challenges of the changing climate. The review takes into consideration the government's response to the Future Homes consultation as well as an estimate of potential cost implications of moving from current building standards towards alternative future approaches.

3. The council is also seeking an indication of a potential Community Infrastructure Levy (CIL) rate, should this be sought by the council. As per Planning Practice Guidance (PPG), this is best addressed at a plan making stage so decisions around priorities for funding can be considered within this strategic context.

4. Outside two of the strategic sites and Lancaster South, the majority of development is already committed (i.e. has planning permission or a resolution to grant permission). Therefore, whilst it is important that this report demonstrates impact of proposed policies and helps the council inform a review of its CIL rates, it is clear that the local plan review is only going to impact significantly on a small number of sites, outwith the two strategic sites and South Lancaster.

5. The study, following national guidance, assesses the residual value of development and compares this with a benchmark land value. The residual value of a scheme is calculated as the difference between its total value and costs.

6. For the assessment, a typology approach is used. The typologies selected were identified in discussion with LCC. They are not intended to represent specific development proposals but to reflect typical forms of development that are likely to come forward over the plan period.

7. For each typology a mix of dwelling types was identified, based on the 2018 housing market assessment and the viability work that support the adopted Local Plan and a review of a selection of recent planning applications. The percentages and tenures of affordable housing used in the testing are based on discussions with the council and reflect the targets in the adopted Local Plan.

8. The set of the market values used in the study was derived from an analysis of Land Registry data for new build housing and EPC records giving the size of dwellings, for the past five years. The data showed variances in values between each of the main urban areas and the rural areas and the two AONB and these differences were taken into account in the testing.

9. A review of property sites, EGi, agent reports and other web based data was used to inform the assumed values for non residential uses i.e. Purpose built student accommodation (PBSA), older persons housing and the non residential typologies (employment, retail and leisure).

10. Build costs for all development types were sourced from BCIS. Other development costs e.g. professional fees, finance rates and developer returns were based on industry standards and the PPG as well as locally available site specific viability assessments.

11. Options around improving building standards to help address climate change were reviewed and costed with a preferred fabric first approach deemed the most cost effective and energy efficient.

12. A series of benchmark land values were drawn up, based on notional existing values for brownfield and greenfield land, with different levels of premium applied. The viability testing therefore used a series of benchmark land values.

13. All the assumptions for the viability testing were discussed with representatives of the local development industry at a workshop, with follow up consultation.

14. The findings of the testing show that at the lowest and middle benchmark land values the majority of development can come forward with a full compliment of policy requirements. Even at the highest benchmark land values a substantial amount of the typologies were still viable, including in Lancaster where the majority of future supply in planned.

15. The exception is flatted development and some small schemes (of 6 or 15 units) in some of the lower value areas. However, the council is not reliant on these forms of development to meet plan policy and in many cases small adjustments to the unit mix or the benchmark land value would mean that the typologies became viable/marginal.

16. PBSA was also found to be viable. However, all forms of older person housing tested were unviable.

17. Of the non residential uses tested, only food stores and hotels showed a positive viability. This is in common with many areas, where speculative development of business space is not usual and development that is brought forward is usually through owner occupation or by a long lease to meet business needs.

18. Therefore, it is considered that the policies set out in the draft plans do not put at risk the overall delivery of the Plan. In terms of CIL there is sufficient headroom to charge CIL on the following basis:

    <u>For residential development:</u>

    - £100 per sqm for Lancaster, Rural West, Rural East, Arnside and Silverdale AONB Forest of Bowland AONB.
    - £30 per sqm for Morecambe, Heysham, Overton and Carnforth
    - £0 for 100% strategic sites, flatted development and older person housing

    <u>For non residential development:</u>

    - £75 per sqm for PBSA
    - £50 per sqm for supermarket (floorspace over 300 sqm)
    - £20 per sqm for hotels
    - £0 per sqm all other development

Chapter 1 Introduction

Context

1.1 Three Dragons, with expert assistance from Enhabit and Ward Williams Associates, have been commissioned by Lancaster City Council to provide viability advice regarding potential policies to be brought forward through the Lancaster Climate Change Local Plan Review.

1.2 On 29 July 2020 Lancaster City Council formally adopted its Local Plan: Strategic Policies and Land Allocations DPD and Review of the Development Management DPD. This document shapes the future of the Lancaster district up until 2031, and plans for more housing, new employment, open spaces, shops and community facilities, all of which are necessary to create places in which people want to live, work and do business. A viability assessment was prepared (Stage One, 2017 and Stage Two, 2018) to support these DPDs.

1.3 On 30 January 2019, the council declared a climate emergency. Whilst the newly adopted Local Plan sought to address climate change, it was too far advanced in the plan preparation process to incorporate some of the actions and directions of the climate emergency declaration. The council has therefore entered into an immediate Local Plan review to ensure that the aspects of this important agenda are adequately considered and include the necessary mitigation and adaption measures necessary to address the climate emergency.

1.4 The council is also preparing separate policy guidance for Lancaster South and the Bailrigg Garden Village though an area action plan. This will be subject to a separate assessment and therefore is not a consideration within this report.

1.5 The main aim of this report is to update the previous evidence, reflecting any changes in guidance and legislation and to test the impact of proposed new policies aimed at strengthening the council's position in respect of new development and the climate emergency. Where appropriate the testing parameters, including the types of sites tested, remain largely unchanged, however all the viability assumptions have all been reviewed prior to retesting. It is important to note that the assessment is not seeking to alter the recently adopted policy on housing supply, including affordable housing – its focus is to test whether polices towards addressing the climate emergency will impact delivery of the local plan, in terms of their cumulative impact.

1.6 This work also includes a review of options around improving new buildings to meet the challenges of the changing climate. The review takes into consideration the government's response to the Future Homes consultation as well as an estimate of potential cost implications of moving from current building standards towards alternative approaches in the future.

1.7 The council is also seeking an indication of a potential Community Infrastructure Levy (CIL) rate, should this be sought by the council in the future. As per the guidance this is best addressed at a

plan making stage so decisions around priorities for funding can be considered within this strategic context.

Viability in plan making

1.8 An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be viable.

1.9 This report sets out the typologies and assumptions used to inform the viability testing reflecting latest available information. The viability testing for this report has:

- Reviewed broad costs associated with addressing the proposed policies to be set out in the local plan review.
- Tested the quantum and broad form of proposed development.
- Been designed to assess the balance around development contributions including the amount of CIL that residential development can support and whether there are differences in viability across the district or between different types of development that are sufficient to justify different policy approaches.

1.10 The testing has drawn on the following for analysis:

- A review of the types of sites planned for development in the Local Plan.
- A review of the policies in the Local Plan and central government guidance that may have implications for development viability.
- A review of recent developer contributions agreed by the council as well as discussion with council officers and retained site specific viability consultants.
- Desk research to form initial views on the values and costs of residential development in Lancaster.

1.11 It is important that the council provides evidence to support its decision making around its policies. Therefore, in addition, the consultant team, including Enhabit and Ward Williams Associates, have undertaken a review of the impact of imminent and proposed changes to the building regulations and the role of different technological and design solutions to achieve these. This work has also included specialist cost advice in order to fully consider the cost implication of potential policies aimed at addressing climate change. These reviews are set out in full in Appendix A.

1.12 Consultation with the development industry including Registered Providers (RPs), the council's own estates team, developers and agents active in the district, firstly through a workshop and

then with continued dialogue following the workshop (including with the RPs). A note of the workshop discussion is shown at Appendix B.

Chapter 2 Requirements of viability testing

National policy context

2.1 **National framework** - The National Planning Policy Framework (NPPF) recognises the importance of positive and aspirational planning but states that this should be done *'in a way that is aspirational but deliverable'*. [1]

2.2 The NPPF advises that cumulative effects of policy should not combine to render plans unviable:

> *'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.'* [2]

2.3 The government has signalled its desire to simplify the planning process, including development contributions. The NPPF advises that:

> *'All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.'* [3]

2.4 In terms of affordable housing the government has reiterated previous policy on affordable housing thresholds and a desire to increase affordable housing products that can potentially lead to home ownership:

> *'Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount'* [4]
>
> *'Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or*

[1] MHCLG, 2019 NPPF Para 16
[2] MHCLG, 2019 NPPF Para 34
[3] MHCLG, 2019 NPPF Para 57
[4] MHCLG, 2019 NPPF Para 63

significantly prejudice the ability to meet the identified affordable housing needs of specific groups.' [5]

2.5 With regard to non-residential development, the NPPF states that local planning authorities should:

'set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth…local policies for economic development and regeneration…seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment…be flexible enough to accommodate needs not anticipated in the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances.' [6]

2.6 However, the NPPF does not state that all sites must be viable now in order to appear in the plan. Instead, the NPPF is concerned to ensure that the bulk of the development is not rendered unviable by unrealistic policy costs. It is important to recognise that economic viability will be subject to economic and market variations over the local plan timescale. In a free market, where development is largely undertaken by the private sector, the local planning authority can seek to provide suitable sites to meet the needs of sustainable development. It is not within the local planning authority's control to ensure delivery actually takes place; this will depend on the willingness of a developer to invest and a landowner to release the land. So, in considering whether a site is deliverable now or developable in the future, we have taken account of the local context to help shape our viability assumptions.

2.7 **Planning Practice Guidance** - Planning Practice Guidance[7] (PPG) provides further detail about how the NPPF should be applied. PPG contains general principles for understanding viability. The approach taken reflects the latest version of PPG. In order to understand viability, a realistic understanding of the costs and the value of development is required and direct engagement with development sector may be helpful[8]. Evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability, with further detail for strategic sites that provide a significant proportion of planned supply[9].

2.8 For a specific site, values should be based on market evidence (rather than average figures) from the actual site[10]. All development costs should be taken into account, including within setting of benchmark land values, in particular para 012 within the PPG Viability section states that:

[5] MHCLG, 2019 NPPF Para 64
[6] MHCLG, 2019 NPPF, para 81
[7] MHCLG, Planning Practice Guidance
[8] PPG Paragraph: 010 Reference ID: 10-001-20180724
[9] PPG Paragraph: 005 Reference ID: 10-004-20180724
[10] PPG Paragraph: 011 Reference ID: 10-011-20180724

'Costs include: build costs based on appropriate data, for example that of the Building Cost Information Service

- *abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value.*
- *site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value.*
- *the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value.*
- *general finance costs including those incurred through loans.*
- *professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value.*
- *explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.'*

2.9 Land values[11] should be defined using a benchmark land value that is established on the basis of Existing Use Value plus a premium for the landowner. The premium should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The benchmark should reflect the implications of abnormal costs, site specific infrastructure and fees. It can be informed by market evidence including current costs and values but that this should be based on development that is compliant with policies, where evidence is not available adjustments should be made to reflect policy compliance.

2.10 PPG states that developer return should be 15 - 20% of gross development value and that a lower figure may be more appropriate for affordable housing delivery[12].

2.11 **Community Infrastructure Levy (CIL)** - CIL is payable on development which creates net additional floor space, where the gross internal area of new build exceeds 100 square metres (this limit does not apply to new houses or flats)[13]. Custom & self-build is exempt, along with

[11] PPG Paragraph: 013 Reference ID: 10-013-20190509 and 014 Reference ID: 10-014-20190509
[12] PPG Paragraph: 018 Reference ID: 10-018-20190509
[13] PPG Paragraph: 001 Reference ID: 25-001-20190901

affordable housing, charitable development, buildings into which people do not normally go and vacant buildings brought back into the same use.[14]

2.12 CIL rates should be set so that they strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments.[15]

2.13 For the purposes of CIL, a charging authority should use an area-based approach, involving a broad test of viability across their area. This should use appropriate available evidence, recognising that the available data is unlikely to be fully comprehensive. A sample of site types should be used, however more fine-grained sampling may be required where differential CIL rates are set. Rates should be reasonable and include a buffer, but there is no requirement for a proposed rate to exactly mirror the evidence.[16]

2.14 Differential rates may be set in relation to geography, development type and/or scale. However undue complexity and disproportionate impact should be avoided. The charging authority should consider a zero CIL where plan policies require significant contributions towards housing or infrastructure through planning obligations.[17]The guidance for testing viability for plan-making and for setting CIL rates is closely aligned and so testing both together follows the same approach and can use common assumptions

2.15 **Other guidance on viability testing for development** - Guidance has been published to assist practitioners in undertaking viability studies for policy making purposes - "Viability Testing Local Plans - Advice for planning practitioners"[18]. The foreword to the Advice for planning practitioners includes support from DHCLG, the LGA, the HBF, PINS and POS. PINS and the POS[19] state that:

'*The Planning Inspectorate and Planning Officers Society welcome this advice on viability testing of Local Plans. The use of this approach will help enable local authorities to meet their obligations under NPPF when their plan is examined*'

2.16 The approach to viability testing adopted for this study follows the principles set out in the Advice. The Advice re-iterates that:

'*The approach to assessing plan viability should recognise that it can only provide high level assurance*'

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[14] PPG Paragraph: 005 Reference ID: 25-005-20190901
[15] PPG Paragraph: 010 Reference ID: 25-010-20190901
[16] PPG Paragraph: 020 Reference ID: 25-020-20190901
[17] PPG Paragraph: 026 Reference ID: 25-026-20190901
[18] The guide was published in June 2012 and is the work of the Local Housing Delivery Group, chaired by Sir John Harman, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation
[19] Acronyms for the following organisations - Department of Communities and Local Government, LGA Environment and Housing Board, Home Builders Federation, Planning Inspectorate, Planning Officers Society

2.17 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and states that:

> *'The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values'. (page 26)*

2.18 But that:

> *'The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented.....' (page 26)*

Principles of viability testing

2.19 The Advice for planning practitioners[20] summarises viability as follows:

> *'An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.' (page 14)*

2.20 Reflecting this definition of viability, and as specifically recommended by the Advice for planning practitioners, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development. The residual value is then available to pay for the land. The value of the scheme includes both the value of the market housing and affordable housing (and other non-residential values). Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer. Scheme costs also include planning obligations (including affordable housing, direct s106 costs) and the greater the planning obligations, the less will be the residual value.

2.21 The residual value of a scheme is then compared with a benchmark land value. If the residual value is less than the benchmark value, then the scheme is less likely to be brought forward for development and is considered unviable for testing purposes. If the residual value exceeds the benchmark, then it can be considered viable in terms of policy testing.

2.22 PPG paragraph 012 - 015 sets out that benchmark land values should be based on the current use value of a site plus an appropriate site premium in most cases. The principle of this approach is that a landowner should receive at least the value of the land in its 'pre-permission' use, which

[20] Local Housing Delivery Group, 2012, Viability Testing Local Plans - Advice for planning practitioners

would normally be lost when bringing forward land for development. The benchmark land values used in this study are based on the principle of 'Existing Use Value Plus' which is considered further in other parts of this report.

2.23 Note the approach to Local Plan level viability (or CIL) assessment does not require all sites in the plan to be viable. The Harman Report says that a site typologies approach (i.e. assessing a range of example development sites likely to come forward) to understanding plan viability is sensible, a view echoed in CIL guidance. Viability '...is to provide high level assurance that the policies with the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan'.

Chapter 3 Local policy requirements

Lancaster City Climate Change Local Plan Review

3.1 The NPPF is clear that viability testing should take into account the costs of any requirements likely to be applied to development. Therefore, a planning policy review has been undertaken. The Local Plan Review will be the main planning document for LCC. It will set out the overarching spatial strategy and development principles for the area together with more detailed policies to help determine planning applications. It is intended that at adoption stage the new Local Plan will formally replace the existing Local Plan: Strategic Policies and Land Allocations DPD 2020 and Development Management DPD 2020.

3.2 LCC is also preparing an AAP to guide development proposals in Lancaster South and in particular the proposed Garden Village at Bailrigg – this is subject to a separate review and is therefore not considered within this report.

3.3 An analysis of the proposed Local Plan policies is set out in Appendix C which provides a summary of each policy, potential impact on viability and implications for viability testing. The draft plans are:

- Consultation Draft (Regulation 18) Part One: Climate Change review of the Strategic Policies & Land Allocations Development Plan Document
- Consultation Draft (Regulation 18) Part Two: Climate Change review of the Development Management Development Plan Document

3.4 Policies that have been identified as having implications for viability testing include:

- DM1 – New residential development and meeting housing needs – sets out key indicators on mix.
- DM2 – Housing standards – sets policy to test around accessibility.
- DM3 – The delivery of affordable housing – sets parameters to test around proportion and tenure of affordable housing.
- DM30a – Sustainable design – sets out future building standards.
- DM44 – The protection and enhancement of biodiversity – sets out biodiversity net gain standards.
- DM62 – Vehicle parking provision and electric vehicle charging points – requires provision of EV charging points.

Future development supply

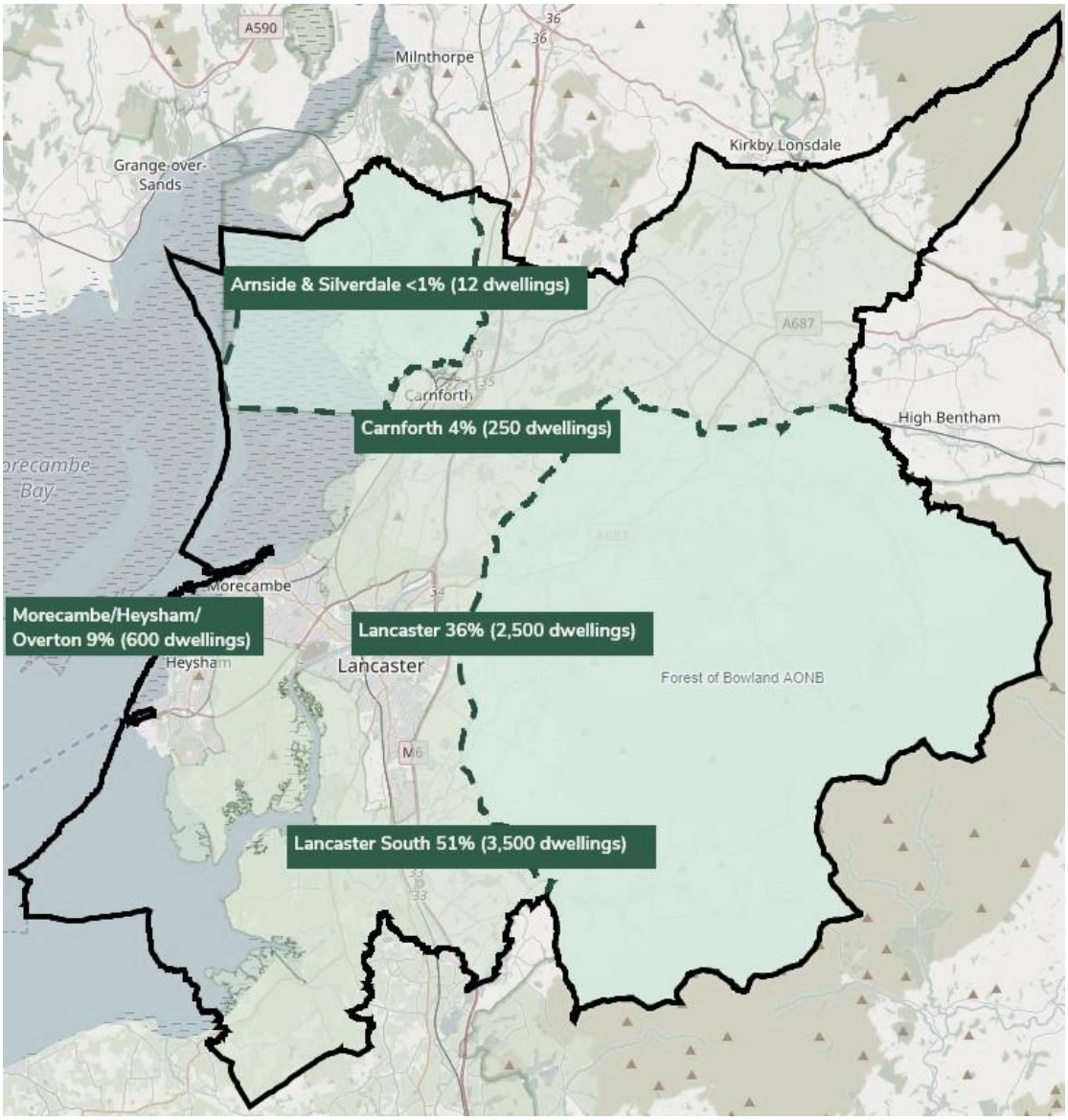
3.5 An important consideration in terms of the testing and policy choices is the types of development that are likely to come forward over the plan period. Both the adopted Local Plan and the proposed Local Plan Review have a number of sites identified for development, which along with

South Lancaster/Bailrigg and contributions from windfall will make up the future housing land supply for LCC.

3.6 Just over half (51%) the future supply is planned to come forward at Lancaster South (3,500 dwellings) and a further 36% (2,500 dwellings) in other areas in and around Lancaster, mainly at the identified strategic sites.

3.7 The remaining supply (13% or 862 dwellings) is largely focused on the smaller settlements of Carnforth, Morecambe, Heysham and Overton. The Local Plan is not predicated on a significant amount of development coming forward within the rural areas, including the two AONB.

Figure 3.1 Future housing supply



3.8 Outside two of the strategic sites and Lancaster South the majority of development is already committed (i.e. planning permission or a resolution to grant permission). Therefore, whilst it is important that this report demonstrates impact of proposed policies and helps the council inform a review of its CIL rates, it is clear that the Local Plan Review is only going to impact significantly on a small number of sites, outwith the two strategic sites and Lancaster South.

3.9 The testing will need to focus on the two strategic sites, with Lancaster South (Bailrigg) to be considered separately through the AAP process. A range of smaller sites that cover the remaining likely supply will also be considered.

Chapter 4 Approach to testing and typologies

Uses included in the testing

4.1 The uses tested are listed below and focus on developer-led forms of development rather than publicly led uses such as new infrastructure facilities or development types that are not common:

- Residential
    - residential for sale
    - purpose built student accommodation (PBSA)
    - sheltered housing
    - extra care housing
    - care homes.
- Non-residential
    - offices
    - industrial/warehouse
    - retail
    - hotel.

Typology selection

4.2 The study uses a typology approach for the testing undertaken. The typologies selected for testing were identified in discussion with LCC. They are not intended to represent specific development proposals but to reflect typical forms of development that are likely to come forward over the plan period. The typologies were also discussed at the development industry workshop but no changes were suggested. The exception to the typology approach is the two strategic sites that are identified in the Local Plan but have yet to secure planning permission – these are tested with some site-specific information as advised by the guidance. As explained previously testing of the Lancaster South sites is being undertaken in a separate piece of work through the AAP process.

4.3 The typologies are set out below, organised in the three broad groups of development types (residential, specialist housing and non-residential).

Residential and specialist housing typologies

4.4 The **generic** residential typologies are set out in table 4.1. These include a set of small sites which are below the various affordable housing thresholds (varying according to location) as well

as some medium and large sites. The proportions of net developable area[21] reflect policy requirements as well as typical characteristics of this site type.

4.5 Also set out in table 4.1 are the two **strategic sites;** Res8 with 700 dwellings is the North Lancaster allocation in the current local plan and Res9 is the 930 dwelling scheme known as the East Lancaster allocation in the current local plan.

4.6 Dwelling numbers and developable area have been provided by LCC and are based on information submitted as statements of common ground for the Examination of the current local plan. Further information on the sites including their s106 package is within Appendix D.

4.7 **Older persons housing**, especially in relation to CIL, needs to have a clear set of definitions. It is important to note that CIL regulations and guidance are concerned with 'use' in its normal meaning and not 'use class' as is sometimes wrongly considered. However, in testing viability it is noted that whilst CIL is not bound by use class, other policy wording e.g. affordable housing does describe requirements with 'use class' definitions.

4.8 There are a number of different types of older person housing. These are helpfully set out by the older person industry through the Retirement Housing Group:

- Retirement housing - This is often known as "Sheltered Housing" or "Retirement Living". Retirement Housing usually provides some facilities not found in completely independent accommodation. These can include a secure main entrance, residents' lounge, access to an emergency alarm service, a guest room. Extra facilities and services are paid for through a service charge on top of the purchase price or rent. To move into retirement housing residents are assumed to be independent enough not to need care staff permanently on site.
- Supported Housing - This is often known as "Extra Care Housing" or "Assisted Living". Everyday care and support will be available. Facilities will include those available in retirement housing plus others (such as a restaurant, communal lounges, social space and leisure activities, staff on site 24 hours a day). Service charges are likely to be higher than in retirement housing but this reflects the more extensive range of facilities.
- Care Homes - This includes what have traditionally been described as residential care homes or nursing homes and is where integral 24-hour personal care and/or nursing care are provided together with all meals. A care home is a residential setting where a number of older people live, usually in single rooms and people occupy under a licence arrangement.

4.9 It has been suggested elsewhere that age-restricted market housing/retirement villages might also be included. Retirement villages can include age-restricted market housing, sheltered/extra

[21] Net developable area is defined as the land within a site that is available for development. The gross site area will also include land for uses such as open space and parks, schools, major distributor roads.

care and care home accommodation, as well as a range of communal facilities. Whilst we indicate what a Village might comprise of, it is difficult to develop a typical scheme and the variance could be considerable. Therefore, in terms of potential affordable housing and CIL charging we consider that the main separate uses within a Village have been tested and in terms of CIL, these would each be charged at the prevailing rate for that use e.g. general housing or supported housing.

4.10 For this study, we have tested a Retirement Housing scheme, a Supported (Extra Care) Housing scheme and a Care Home scheme. They have been tested without affordable housing provision as the majority of these types of schemes are likely to be apartments, where affordable housing is not sought be plan policy. Tables 4.1 and 4.2 set out the typologies used in the study, as well as site type (GF = greenfield, BF = brownfield).

Table 4.1 Residential typologies

Typology	Description	Dwellings	Density (per net hectare)	Gross site (hectare)
Res1	GF house scheme	2	33dph	0.06
Res2	GF house scheme	6	30dph	0.2
Res 2	BF house scheme	6	30dph	0.2
Res3	GF mixed scheme	15	34dph	0.52
Res3	BF mixed scheme	15	34dph	0.52
Res4	GF mixed scheme	50	36dph	1.85
Res4	BF mixed scheme	50	36dph	1.85
Res5	BF flat scheme	50	79dph	0.74
Res6	BF flat scheme	100	93dph	1.27
Res7	GF mixed scheme	150	36dph	6.94
Res7	BF mixed scheme	150	36dph	6.94
Res8	GF mixed scheme	700	25dph	73.9
Res9	GF mixed scheme	930	26dph	80

Table 4.2 Specialist housing typologies

Typology	Description	Units	Gross site (hectare)
OP1	GF house scheme – Retirement Housing	60	0.55
OP2	GF house scheme – Supported Housing	50	0.63
OP3	GF mixed scheme – Carehome	60 (3,000 sq m gross)	0.25
STU1	BF mixed scheme	100 (3,100 sq m gross	0.09
STU2	GF mixed scheme	450 (13,950 sq m gross)	0.30

Affordable housing requirements

4.11 The percentages and tenures of affordable housing used in the testing are based on discussions with the council and reflect the targets in the adopted Local Plan. The percentages are area based and the affordable housing is defined, in all cases, as 50% affordable rent and 50% homeownership.

4.12 The base testing assumes the 50% affordable homeownership is a shared ownership tenure as preferred by the council. However, the government has recently published a Ministerial Statement and changes to PPG to encourage the introduction of a new tenure of affordable housing ownership, known as First Homes. The statement and guidance suggest the councils should include planning policy that requires 25% of all affordable housing as the new First Homes tenure. Whilst the guidance does provide some broad parameters around First Homes, there is a lack of detail as to how it should be considered in terms of viability testing and as it is a new tenure there are no examples of how it will operate in practice to help inform any assumptions.

4.13 In terms of testing impact on viability, in discussion with the council it has been agreed that sensitivity testing should be undertaken for the two strategic sites and the Res3 BF typology across all value areas to include an allowance for 25% First Homes. To accommodate this requirement in the sensitivity tests, the Shared Ownership proportion will reduce from 50% of

the affordable housing to 25% of the affordable housing. Other assumptions for First Homes, around values, returns and costs are explained in the relevant sections.

4.14 The percentages of affordable housing used in the testing are set out in the table below.

Table 4.3 Affordable housing profile

Area	Type	% AH	Threshold
Lancaster, Carnforth and Rural West	Greenfield	30%	15 plus units
	Greenfield	20%	10 – 14 units
	Brownfield	20%	10 plus units
Morecambe, Heysham and Overton	Greenfield	15%	10 plus units
	Brownfield	0%	All units
Rural East	Greenfield	40%	10 plus units
	Brownfield	30%	10 plus units
Forest of Bowland AONB	All	50%	2 plus units
Arnside and Silverdale AONB	All	50%	2 plus units
Solely apartment led development (all areas)	Apartments	0%	All units

4.15 Rural exceptions sites (Local Plan policy DM5) are not included as a typology in the viability testing as the policy is clear that they should be 100% affordable housing. This reflects the fact that the priority for these sites is to maximise delivery of affordable housing.

4.16 Older person housing is most likely to be apartments, which have no affordable housing requirement and care homes and student accommodation schemes are also not required to provide affordable housing.

Non-residential typologies

4.17 As with the residential, older person and student housing case studies the testing has been conducted on a hypothetical typical site basis. This is because it is impossible for this study to consider viability on a site-specific basis at this stage, given that there will be insufficient data on site-specific costs and values. Site-specific testing would also be considering detail on purely speculative/assumed scenarios, producing results that would be of little use for a study for strategic consideration.

4.18 **Retail typologies** include convenience and comparison, in and out of town centre locations. Lancaster City centre is the highest order centre in the district (map of the town centre boundary is set out in Appendix E) with much smaller centres in Morecambe/Heysham, and Carnforth. Data on town centre retail values has been taken from transactions in locations across the

district, while out of centre retail data has used a North West average in order to base estimates on sufficient transactions.

4.19 In the past leases to the main supermarket operators have commanded a premium with investment institutions. Although there are some small regional variations on values, they are reasonably standard across the country with investors focusing primarily on the strength of the operator covenant and security of income. As a result, it is reasonable to use a broad geographical evidence base across the north of England for convenience retail.

4.20 There has been a structural change in convenience retailing in recent years with an end to the expansion of the largest format convenience retailing and more emphasis on smaller supermarket formats (as used by both discount and premium convenience operators) and greater provision of small format stores, often within the Sunday trading threshold (280 sq m display floor area), also often in existing floorspace. These changes reflect the alterations in shopping habits. This trend appears to be continuing even with the recent general downturn in retail due to the pandemic and the typologies chosen reflect these changes.

4.21 Whilst it is acknowledged that some of the larger urban extensions and Lancaster South will have 'new' local and town centres these have not been tested separately as there is little or no comparable evidence on which to base testing assumptions. However, emerging information from similar types of locations suggests that this type of development is generally cross subsidised by the housing and therefore it is unlikely to have sufficient value to support separate charging in any event.

4.22 There is **employment activity** and planned growth across the district. We have therefore tested office, industrial and warehouse uses in edge of settlement/transport nodes as well as office development in more traditional centres. Whilst potentially office development could be in both in and out of centre, it is anticipated that industrial uses and warehouses will be located only at out of centre locations.

4.23 Nationally, there has been significant growth in the provision of **budget hotels**,[22] with relatively few full-service hotels outside the major conurbations. The most likely new-build hotel development in Lancaster is a budget hotel[23] and the testing has used a budget hotel development of 70 rooms over three storeys, this could be in either a coastal centre or near business activity in an out of centre location.

4.24 It is important to note that, whilst it is likely a range of non-residential uses (e.g. offices, industrial, retail and leisure) will come forward over the lifetime of the plan, experience elsewhere

[22] The British Hospitality Association Trends and Developments Report 2012 indicates that budget hotels are defined as a property without an extensive food and beverage operation, with limited en-suite and in-room facilities (limited availability of such items as hair dryers, toiletries, etc.), low staffing and service levels and a price markedly below that of a full service hotel.
[23] https://www.knightfrank.co.uk/blog/2018/07/12/knight-frank-launches-uk-hotel-development-opportunities-2018-report

and the review of proposed local plan policies suggests that these will account for a very limited proportion of development and are affected more by market forces than policy requirements. Therefore, whilst it is important to consider the results in terms of any potential CIL it is unlikely that plan policies will have any significant impact.

4.25 The following table sets out the non-residential typologies used for testing including the assumed net developable site area for each development type and the amount of floorspace it will accommodate:

Table 4.4 Non-residential typologies

Typology	Use	Description	Gross floorspace (sqm)	Gross site area (hectare)
NR1	Office	Fringe and transport nodes	1,500	0.19
NR2	Office	Lancaster City	2,000	0.06
NR3	Industrial	Fringe and transport nodes	1,600	0.40
NR4	Warehouse	Fringe and transport nodes	5,000	1.25
NR5	Retail convenience	Small local store	300	0.03
NR6	Retail convenience	Supermarket	1100	0.31
NR7	Retail comparison	Town centre	200	0.01
NR8	Retail comparison	Out of centre/retail warehouse/park	1,000	0.25
NR9	Hotel	Budget/business	2,800 (70 rooms)	0.23

Chapter 5 Residential/specialist housing assumptions

Dwelling mix

5.1 For each typology, a mix of dwellings was devised. These mixes were based on the housing market assessment and the viability work that support the (sound) local plan and current applications. They were agreed with LCC and also presented at the development industry workshop. The mixes used for the market and affordable dwellings are set out in the following tables.

Table 5.1 Market dwelling mix

Typology	Description	Market units	2 bed flat	2 bed bungalow	2 bed terrace	3 bed semi	4 bed detached
Res1	GF houses	1 - 2	-	-	-	-	100%
Res2	GF/BF house	3 - 6	-	-	-	75%	25%
Res3	GF/BF mixed	7.5 - 15	10%	10%	20%	35%	25%
Res4	GF/BF mixed	25 - 50	10%	10%	20%	35%	25%
Res5	BF flat	40 - 50	100%	-	-	-	-
Res6	BF flat	80 - 100	100%	-	-	-	-
Res7	GF/BF mixed	105 - 150	10%	10%	20%	35%	25%
Res8	GF mixed	490	-	10%	15%	40%	35%
Res9	GF mixed	651	-	10%	15%	40%	35%
Specialist residential dwellings/units							
OP1	GF – Retirement housing	60	50% 1 bed flat 50% 2 bed flat				
OP2	GF – Supported housing	50	50% 1 bed flat 50% 2 bed flat				
OP3	GF – Carehome	60	60 bed spaces				
STU1	BF PBSA	100	25% studios and 75% rooms in cluster flats				
STU2	GF PBSA	450	25% studios and 75% rooms in cluster flats				

Table 5.2 Affordable dwelling mix

Typology	Description	Affordable units	1 bed flat	2 bed bungalow	2 bed terrace	3 bed semi	4 bed detached
Res1	GF houses	1	-	-	-	-	100%
Res2	GF/BF house	3	-	-	100%	-	-
Res3	GF/BF mixed	2.25 – 7.5	35%	10%	30%	20%	5%
Res4	GF/BF mixed	7.5 - 25	35%	10%	30%	20%	5%
Res5	BF flat	10	100%	-	-	-	-
Res6	BF flat	20	100%	-	-	-	-
Res7	GF/BF mixed	22.5 - 45	35%	10%	30%	20%	5%
Res8	GF mixed	210	35%	10%	30%	20%	5%
Res9	GF mixed	279	35%	10%	30%	20%	5%

Dwelling sizes

5.2 The size of dwelling affects both their market value (as sale values were assessed on a per sq m basis) and their development costs. For schemes with 100% apartments, an allowance of 15% on top of the 'saleable floor' area in table 5.3 is added for circulation and common areas – and which will impact on the costs of these typologies. For schemes where apartments are part of a mix, the council has indicated that they seek 'cottage' style flats where each occupant has their own outside front door and there is no communal space. Therefore, no additional apace allowance is added.

5.3 An allowance of 25% floor area is added to sheltered housing, and 35% for extra care housing to allow for circulation, common and service areas.

5.4 Dwelling sizes used are based on meeting the nationally described space standards, averages derived from past transactions (taken form Land Registry and Energy Performance Certificates or EPC records) and the previous viability work. These were discussed and agreed with the council and at the development industry workshop.

Table 5.3 Market and affordable dwelling sizes

Dwelling type	Market size sqm (net)	Affordable size sqm (net)
1 bed flat	-	50 sqm
2 bed flat	61 sqm	-
2 bed bungalow	65 sqm	65 sqm
2 bed terrace	70 sqm	70 sqm

Dwelling type	Market size sqm (net)	Affordable size sqm (net)
3 bed semi detached	93 sqm	84 sqm
4 bed detached	121 sqm	106 sqm
1 bed Sheltered/Extra Care	50 sqm / 65 sqm	-
2 bed Sheltered/Extra Care	75 sqm / 80 sqm	-

Source: Land Registry/EPC, LCC, NDSS

Values – standard residential market

5.5 The set of the market values in Lancaster was derived from an analysis of new build Land Registry data for past five years. The Land Registry data was matched to Energy Performance Certificates to enable a value per sq m to be generated for the different house types. This is then grossed up by the dwelling sizes to provide an approximate dwelling value. The detailed transactions are set out in Appendix F

5.6 Prior to the Covid-19 pandemic it would be normal practice to index all the house prices to align with the base date of the build cost information, so cost and values have the same base date. However, whilst it is clear that house prices have increased significantly over the past year and Lancaster has seen one of the biggest increases in the country (a recent report from Rightmove suggests that from March 2020 to March 2021 price growth in Lancaster was the 6th highest in the country at nearly 12%[24]), it is uncertain whether this will be a continuing trend as the impact of the pandemic on the market diminishes.

5.7 Therefore, this study takes the cautious route of using values indexed to February 2020 and adding to this the following time period of March 2020 to December 2020 (the latest available data at time of the analysis) indexed to December 2020. As the transactions for the period to February 2020 number 799 and outweigh those from March 2020 (59 transactions), then this will dampen the overall values compared to what is being currently achieved as a weighted average is used for the £ per square metre calculation. The table below highlights the abundance of caution shown with using this approach, whereby it can be seen that values since March 2020 are substantially higher than those in February 2020 for both all stock and new build stock only.

Table 5.4 Standard market values comparison

Transaction type	01/16 – 02/20 – indexed average £ per sqm	03/20 – 11/20 – indexed average £ per sqm	01/16 – 11/20 combined weighted average
All transactions	£1,948	£2,140	£2,100
New build transactions	£2,478	£3,141	£2,697

Source: Land Registry/EPC

[24] https://www.rightmove.co.uk/press-centre/wallasey-named-property-price-hotspot/

5.8 Given the uncertainty regarding the current rising market and the cautious approach this study takes with the baseline information it is considered appropriate to undertake some sensitivity testing to explore the impact of higher values (and costs). This is further explained in the relevant section.

5.9 When analysing the price paid data, it can be seen that there are clear differences between areas within the district. The rural areas and in particular the AONB attract the highest values, with Lancaster City leading the way in terms of more urban locations. Morecambe, Heysham and Overton are at the lower end of the range with Carnforth slightly higher. The following table sets out the £ per sqm values to be used within the testing by type of unit.

Table 5.5 Standard market values by area and unit type

Value area	Flats (£ per sqm)	Terrace (£ per sqm)	Semi (£ per sqm)	Detached (£ per sqm)
Lancaster	£2,350	£2,200	£2,550	£2,550
Carnforth	£2,250	£2,150	£2,300	£2,500
Rural West	£3,000	£2,350	£2,650	£2,550
Morecambe/ Heysham/ Overton	£2,650	£1,900	£2,100	£2,400
Rural East	£2,550	£2,350	£2,550	£2,600
Forest of Bowland	£2,900	£2,550	£2,650	£2,850
Arnside & Silverdale	£3,000	£2,700	£2,950	£3,200

Source: Land Registry/EPC

5.10 To 'sense' check these values, advertising prices shown on Right Move (Feb 2021) for properties in around Lancaster district were reviewed. At the time only a limited number of new build properties were being advertised, however these show 4 bed properties ranging from £300,000 - £465,000, 3 bed properties around £250,000 and 2 bed flats in 2 different price brackets with a high end product with sea views at around £200,000 to £300,000 and elsewhere at around £150,000.

Table 5.6 Advertised market values by dwelling types

Scheme	Dwelling type	Price advertised
Warton Grange Close	4 bed detached	£465,000
Monkswell Court	4 bed bungalow x 2	£450,000 x 2
The Hollies	5 bed detached	£418,995
The Hollies	4 bed detached	£396,995
Warton Grange Close	4 bed semi-detached	£380,000
Warton Grange Close	4 bed semi-detached x 3	£375,000 x 3

Warton Grange Close	4 bed semi-detached x 2	£370,000 x 2
The Hollies	5 bed detached	£369,995
The Hollies	4 bed detached	£365,995
North Road	4 bed detached	£365,000
North Road	4 bed detached	£345,000
Hazel Green	4 bed detached	£324,950
Bowerham Road	4 bed detached	£324,950
Coleman Drive	4 bed detached	£320,950
The Broadway	2 bed flat	£320,000
Hornby Road	4 bed detached	£312,000
The Broadway	2 bed flat	£305,000
The Broadway	2 bed flat	£300,000
Hazel Green	4 bed detached x 2	£299,950 x 2
The Broadway	2 bed flat	£290,000
The Broadway	2 bed flat	£280,000
The Broadway	2 bed flat	£250,000
The Cedars	3 bed terrace	£250,000
Ropewalk	3 bed semi-detached	£250,000
The Broadway	2 bed flat	£245,000
Cedar Lodge	3 bed terrace	£240,000
Warton Grange Close	2 bed terrace x 2	£220,000 x 2
Warton Grange Close	2 bed semi-detached	£215,000
Warton Grange Close	2 bed semi-detached x 2	£200,000 x 2
The Broadway	2 bed flat	£190,000
Africa Drive	3 bed terrace	£185,000
The Roundhouse	2 bed flat	£170,000
New Quay Road	2 bed flat	£150,000
Queens Court	2 bed flat	£142,000
Aalborg Place	2 bed flat	£135,000
New Quay Road	1 bed flat	£120,000
Chapel Lane	1 bed flat	£105,000
Chapel Lane	1 bed flat x 2	£97,500 x 2
Chapel Lane	1 bed flat x 2	£79,950 x 2

5.11 These advertised prices are generally just above those used in the base testing, however it is normal to expect the advertised price for new build properties to be the same or lower when sold. Therefore, the assumptions around values, which are driven by an extensive evidence base are considered to be cautiously realistic.

Values – older persons residential market

5.12 **Sheltered** and **extra care** values are based on the Retirement Housing Group (RHG) guidance. Selling prices for sheltered schemes (CS9) are based on a range of schemes that have either sold or are selling at the time of reporting in 2021 and cross referenced to Land Registry sales data for semi-detached properties in the LCC area.

5.13 Rightmove and older person provider websites suggest there are two active schemes in the Lancaster area. The values of these varied between provision with sheltered housing from £182,000 - £230,000 and extra care from £210,000 - £320,000. It is also noted that these are advertised, rather than selling prices. If an average of the advertised price is taken and reduced by 10% to take account of any discounts on selling price a two bed flat would have an achieved sales price around £200,000.

5.14 As a check, this average price has been cross referenced to second-hand semi-detached properties, which have an average sold price of just under £200,000. The selling price of a 2-bed sheltered flat is the same as the 3-bed semi, with the value of a 1 bed sheltered flat set at 75% of a 3-bed semi. For extra care schemes, selling prices are 125% of the selling prices for sheltered housing. Therefore, it is reasonable to assume that a sheltered older persons two bed flat would be within this range. The values to be used are shown in Table 5.7.

Table 5.7 Older person market values

Type	1 bed flat (£)	2 bed flat (£)
Sheltered	£164,500	£206,000
Extra care	£194,500	£288,000

Source: Property websites & Land Registry/EPC

5.15 **Care homes** are assumed to have a capital value of £110,000 per bedroom and a yield of 5.5%, based on a review of data from EGi, trade press and market commentary. We have tested a care home of 60 beds with a floorspace of 3,000 sq m.

Values – purpose built student accommodation

5.16 The values for purpose built student accommodation are based upon capitalised net rents from St Georges Quay, St Leonards Gate, Cable Street and Caton Court in Lancaster. 30% of the rental income is deducted for operational, maintenance and repair allowances and the balanced is capitalised at 5.25%[25]. A blended capital value per room of £99,000 per room is used in the testing, based upon 25% studios and 75% rooms in cluster flats[26].

Values - Affordable housing

5.17 Discussion with the council's housing team, a review of schemes and a survey of local Registered Providers identified a range of transfer values for affordable housing as a percentage of full market value (i.e. an estimate of how much the RPs may pay for the affordable units).

5.18 In terms of **shared ownership**, the transfer values varied from 65% to 80%. Therefore, a low mid-point figure of 70% of market value is used across the study area. In terms of **affordable rent,** the values were similar across the district but because of the variance in market values the transfer values (as a percentage of market value) did vary considerably from 40% to 74%. As the actual values were fairly static it is considered that the actual values should be used for testing purposes rather than a percentage of market value.

Table 5.8 Affordable housing values

Dwelling type	Affordable rent	Shared ownership
1 bed flat	£70,000 per unit	70% market value
2 bed flat	£90,000 per unit	70% market value
2 bed house	£102,000 per unit	70% market value
3 bed house	£119,000 per unit	70% market value
4 bed house	£140,000 per unit	70% market value

Source: Registered providers, LCC housing team & S106 associated viability assessments/agreements

5.19 As part of the testing the implications of introducing First Homes as part of the tenure mix are to be considered. In terms of values, the PPG makes clear that **First Homes** should be at a discounted value at 70% of the full market value. Guidance does allow the local authority to seek a higher discount if it can be locally justified – however LCC are not proposing an alternative

[25] Based on typical yield estimates for regional PBSA schemes from Savills, CBRE and Cushman and Wakefield
[26] Based on a review of the different proportion of rooms in Luneside 16/00574FUL and the Courtyard 16/018084FUL.

figure and therefor the 70% of market value will be used (this means the level of discount is the same as shared ownership for this testing).

Development costs

Build costs

5.20 Build costs can vary due to location, development type, proposed tenure type, proposed tenure mix, storey height, and building use. The Build Cost Information Service (BCIS) provides benchmarking information for build costs, adjusted for the location. Residential build costs are based on actual tender prices for new builds over a 5-year period and the tender price data is rebased to Q4 2021 (in line with values) and LCC prices using BCIS defined adjustments, to give the build costs for different types of schemes.

5.21 We understand from various consultants that volume and regional house builders can comfortably operate within the BCIS lower quartile cost figures, especially given that they are likely to achieve significant economies of scale in the purchase of materials and the use of labour. Many smaller and medium sized developers of houses are usually unable to attain the same economies, so their construction costs may be higher although this will vary between housebuilders and sites. We have worked with BCIS to identify how costs change according to the size of the development. We have used this analysis by BCIS to inform our approach to testing in LCC. The variable build costs by site size is applied to houses only, as flat build costs do not show the same pattern - instead flat build costs vary by height.

5.22 In addition to the dwelling build costs, allowances are made of 10-15% on build costs for external works and contingency. For smaller schemes, the higher build costs are combined with higher allowances for external works and contingency, while for larger sites we use lower dwelling costs and external works allowances but with additional allowances for site infrastructure costs. For all house sites, specific allowances are also made for garages, with 20% of dwellings including an allowance of £7,700 to account for a single garage – this is based on a review of recent applications and tested at the development industry workshop. Table 5.9 illustrates the BCIS rates and shows how they are applied to the different typologies in the testing.

Table 5.9 Residential development costs

Type	Base build cost £/sqm	Site sizes (dwellings)
Estate housing mean +5%	£1,199	2-5
Estate housing mean	£1,142	6-9
Estate housing mean 95%	£1,085	10-50
Estate housing mean 92%	£1,051	51-100
Estate housing mean 89%	£1,016	101-250
Estate housing lower quartile	£953	251+
Flats mean 1-2 storey	£1,250	All

Type	Base build cost £/sqm	Site sizes (dwellings)
Flats mean 3-5 storey	£1,264	All
Single storey mean		Bungalow
Supported housing mean	£1,449	All
Care home[27]	£1,551	All
PBSA	£1,741	All

Source: BCIS – see Appendix G for BCIS report

Other residential development costs

5.23 There is a range of other standard costs that need to be applied when undertaking the viability testing. These were all tested at the development industry workshop and are based on PPG, experience of other high level plan making viability testing, local information from LCC, including site specific discussions and a review of the latest set of viability assessments that have been subject to an examination process (either Local Plan or CIL) and an Examiners Report (see Appendix H for details). Thus they are a standard set of assumptions that should not be controversial or subject to any significant challenge given they are based on accepted and examined practice, both local and national. Further information providing background to some of the costs is set out in the following table.

Table 5.10 Other residential development costs

Type	Cost	Metric
Site costs		
Plot costs/external works and contingency	1 – 9 dwellings 15% 10 plus units 10%	build cost
Site development costs (land preparation, site infrastructure)	1 – 9 dwellings £0 10 – 100 dwellings £5,000 101 – 500 dwellings £10,000 501 plus dwellings £26,000	per dwelling unit
Garages	£7,700 per garage	applied to 20% of total dwellings on schemes with houses
Fees and finance costs		
Professional fees	1 – 9 units – 10% 10 – 100 units – 8% 101 plus units – 6%	of build costs including plot costs/contingency
Finance	6%	of total development costs including land purchase
Marketing/legal/sales fees	3%	of market GDV

[27] Please note that for care homes and PBSA, in common with the non-residential testing, the 15 year default period is used from BCIS due to the limited number of tenders within the 5yr period.

Type	Cost	Metric
	6%	of older persons GDV
Affordable housing legal fee	£500	per affordable unit
Developer return	17.5% 6%	market GDV affordable housing GDV
Agents and legal	1.75%	land cost (BLV)
Stamp duty	prevailing rate	land cost (BLV)
Policy and mitigation costs		
Biodiversity net gain	£1,137 £242	per dwelling (greenfield) per dwelling (brownfield)
EV charging points	£865	per charger
Accessibility	£1,400	applied to 20% of total dwellings
S106 allowance	£4,400 £6,561 £6,813	per dwelling – non strategic sties per dwelling – Res8 per dwelling – Res9
Building standards	See below for further details	

5.24 Alternative assumptions for First Homes have yet to be standardised as this is a new tenure and with no examples at time of report, this testing has to rely on applying some general principles based on what is set out in guidance.

5.25 It is assumed that as the developer will be required to market the product and at first sale cover legal and sales cost, then it is appropriate that the normal affordable allowance for legal costs (£500 per unit), should instead be higher at 3% of First Homes GDV. All other costs are anticipated to be the same as affordable housing, including return at 6% GDV. The guidance is clear that this is an affordable housing product and therefore it is considered appropriate to maintain consistency with other affordable housing tenures. It is also noted that locally (South Lakeland), the most similar product to First Homes – '*discount market sale*' are appraised using a 6% on GDV return.

Policy requirements

5.26 **Biodiversity net gain** - The allowance for biodiversity gain is drawn from the government's impact assessment[28] which was published with the consultation on the amendments to the Environment Act. A cross typology allowance, split by greenfield and brownfield is used. However, it should be noted that, as biodiversity net gain is site specific depending on both the existing site characteristic and the ability of development form to both mitigate and provide additional gain, it is difficult to gauge a suitable allowance for meeting the requirements. It is also of note that the NHBC with the RSPB have recently issued guidance on how to achieve net gain

[28] MHCLG, 2019, Biodivesity net gain and local nature recovery strategies impact assessment

within new development. At the launch of the guidance both the authors and one of the major housebuilders (Barratt Homes) emphasised that incorporating measures for biodiversity net gain during the design phase meant additional costs were minimal. This suggests that, whilst an allowance is included, the actual cost could be much lower and therefore the testing allowances are a conservative estimate.

5.27 **EV charging -** An allowance for 'fast charge' electric vehicle charging points is made for 3 bed plus dwellings and 50% of 1-2 bed dwellings. On this basis the total allowance on a site basis is considered sufficient to meet the requirements now set out in draft policy DM62. It is recognised that there is also a desire for rapid chargers, however these are generally operated (and brought forward) on a commercial basis and therefore have not been included within the costs. The EV charger costs are based upon the impact assessment produced by the government[29].

5.28 **Accessibility** - The accessibility costs are based on the 2020 consultation report[30] produced by the government. The LCC plan policy requires 20% of all new homes to meet the M4(2) Category 2 standards. However, whilst an allowance has been made this is a conservative approach as it is likely that these standards are starting to filter through general build costs prepared by BCIS.

5.29 **Other non - affordable housing s106 requirements** - The level of s106 allowed for in the viability testing was one of the issues raised in the development industry workshops. Following the workshops, a further review of s106 payments was undertaken. The s106 payments were typically for education, open space and transport contributions. The review of 45 applications included a range of site sizes and both permitted and pending schemes. LCC have advised that they will continue to seek these types of site-specific mitigation as s106, rather than CIL and therefore it is important to include them within the testing. A weighted average (of the total value of contributions divided by the total number of dwellings within the schemes analysed) of the most recent schemes at £4,400 per dwelling is used within the testing.

5.30 The allocated sites have their own specific s106 requirements and these have been advised by LCC. The total s106 package tested for Res8 is c£4.6m or £6,561 per dwelling; and for Res9 it is c£6.3m or £6,813 per dwelling. The breakdown is set out in Appendix D.

5.31 Whilst not part of the s106 it is important to note that a further cost allowance of £3m is included within the Res9 scheme to account for the relocation of the golf course. This figure was provided by LCC and is understood to have been informed by discussion with the site promoters.

[29] MHCLG, 2019, Residential charging infrastructure provision impact assessment
[30] MDCG, 2020, Raising accessibility standards for new homes

5.32 Care home testing includes £2,706 for EV charging. The smaller student scheme is assumed to have a s106 cost of £6,250 and the larger scheme £25,000. The student scheme testing also includes £1,903 and £15,916 respectively for EV charging.

Building standards

5.33 LCC is considering a range of potential standards, aimed at decarbonising development, to include within the local plan review. The council have asked the consultant team to review these standards and set out what they mean in terms of development in terms of how far they will take the council towards their aspirations towards addressing their declared climate emergency.

5.34 The options included the different standards considered by the government within its 2019 consultation on changes to the 2013 Building Regulations and the proposed Future Homes standard, as well as other higher environmental performance standards used for buildings. However, during the preparation of the work the government published its response to the Future Homes consultation, providing a key steer as to how building regulations will be applied in the future and the relation with planning policy. Further details are set out in the building standards summary report in Appendix A.

5.35 The review (Appendix A) undertaken with Enhabit has considered the impact of the following standards in building design requirements and their relative ability to meet LCC goal of net zero carbon:

- current 2013 Part L
- 2021 Part L Standard
- indicative Future Home Standard
- fabric first - AECB Building Standard
- fabric first - Passivhaus Classic
- fabric first - Passivhaus Plus/Premium.

5.36 The potential of net zero whole life carbon (operational and embedded) was also considered but the findings of the review found that currently and beyond the plan period it was unachievable in most circumstances and instead the focus should be on improving fabric and design. Further work was undertaken with cost consultants Ward Williams Associates to identify the costs of meeting 2021 Part L Standard, Future Home Standard and forms of Passivhaus.

5.37 The review by the consultant team concludes that a fabric first approach (as promoted through the Passivhaus Standard) is the most efficient means to meet an (operational) net zero approach to carbon emissions. However, the viability work has tested each of the options in order to illustrate the cost impacts of different approaches.

5.38 The viability assessment uses the percentage uplift on base build costs, provided by the cost consultants, required to meet each of the tested standards set out by Enhabit. This assumes that

the base build cost is compliant with current 2013 building regulation standards. Details are within the review report (Appendix A) but in summary are as follows:

- part L 2021 – 4% uplift
- future homes – 11% uplift.
- fabric first (Passivhaus classic equivalent) – 4% uplift.
- fabric first and onsite energy (Passivhaus plus equivalent) – 7% uplift.

5.39 The care home and purpose built student accommodation typologies will be required to meet the BREEAM Excellent standard. We have applied an uplift to base build costs of 0.77% for care homes and 1.58% for student accommodation in order to meet the costs of fulfilling this standard[31].

Sales and build cashflow

5.40 It is assumed that for all the typologies tested that land is purchased in the first year. For the strategic sites, which are much larger, it would be unusual for a housebuilder to purchase all the site upfront and where this does happen there is often a reduction in the value for the increased upfront purchase. Therefore, the purchase has been split into two segments with half in year one and the remaining payment approximately half way through the development.

5.41 There is a lead in time prior to a start in construction with first sales at 9 months. It is assumed that build costs are in line with house sales minus 6 months and that policy and mitigation costs will be spread evenly, in line with build costs.

5.42 The averages sales rates are as follows:

- Typologies with 100 and less dwellings – 2 sales per month.
- Typologies with 101 plus dwellings – 4 sales per month (assumes two outlets).

5.43 These figures are drawn from dialogue with the council and were discussed at the development industry workshop, with no alternatives provided.

5.44 Sales periods are typically longer for retirement housing than for general needs housing. In line with the RHG guidance we have assumed that 40% of units are sold at the end of the first year of sales, 30% during the second year of sales and 30% during the third year; with an 18 month build period before sales commence.

[31] Based on Briefing Paper – The Value of BREEAM (to include reference to Tata Steel, British Constructional Steelwork Association Limited, AECOM, Cyril Sweett, The Steel Construction Institute, Development Securities PLC, 2012)

5.45 The care home typology is assumed to have a 12 month build and a 6 month rent free period. The smaller student scheme is assumed to have a 12 month build and the larger student scheme is assumed to have an 18 month build.

Benchmark land values

5.46 Benchmark land values, based on the existing use value or alternative use value of sites are key considerations in determining viability and testing planning policies and tariffs. A detailed review of the guidance and our approach to benchmark land values is set out in Appendix I.

5.47 The table below sets out the benchmarks for this study, which are expressed as the EUV estimate and then the range of sensitivity premiums that are used within the viability testing. Where the new development is on land already/formerly in that use then no premium is applied (e.g. office development on office land). Higher benchmarks are used for convenience retailing reflecting the relative lack of suitable locations for these uses, particularly supermarkets.

Table 5.11 Benchmark land values

Site type	EUV/ha	Premium	BLV/ha	Based on	EUV Source
Large greenfield 1	£18,100	10 times	£181,000	10 times agricultural value	3D review (Lancaster + 40 miles)
Large greenfield 2	£18,100	15 times	£272,000	15 times agricultural value	3D review (Lancaster + 40 miles)
Large greenfield 3	£18,100	20 times	£362,000	20 times agricultural value	3D review (Lancaster + 40 miles)
Small greenfield 1	£39,200	10 times	£392,000	10 times paddock value	3D review (Lancaster + 40 miles)
Small greenfield 2	£39,200	15 times	£588,000	15 times paddock value	3D review (Lancaster + 40 miles)
Small greenfield 3	£39,200	20 times	£784,000	20 times paddock value	3D review (Lancaster + 40 miles)
City centre brownfield 1	£865,000	10%	£952,000	Lancashire CBD office land + 10%	MHCLG
City centre brownfield 2	£865,000	20%	£1,038,000	Lancashire CBD office land + 20%	MHCLG
City centre brownfield 3	£865,000	30%	£1,125,000	Lancashire CBD office land + 30%	MHCLG

Site type	EUV/ha	Premium	BLV/ha	Based on	EUV Source
Higher brownfield 1	£525,000	10%	£578,000	Lancaster industrial land + 10%	MHCLG
Higher brownfield 2	£525,000	20%	£630,000	Lancaster industrial land + 20%	MHCLG
Higher brownfield 3	£525,000	30%	£683,000	Lancaster industrial land + 30%	MHCLG
Standard brownfield 1	£226,000	10%	£249,000	Low value EUV + 10%	3D based on Egi data with BCIS refurb
Standard brownfield 2	£226,000	20%	£271,000	Low value EUV + 20%	3D based on Egi data with BCIS refurb
Standard brownfield 3	£226,000	30%	£294,000	Low value EUV + 30%	3D based on Egi data with BCIS refurb
Greenfield area of change (non-developable)	£18,100	10%	£20,000	Agricultural value + 10%	3D review (Lancaster + 40 miles)
Greenfield area of change (non-developable)	£18,100	20%	£22,000	Agricultural value + 20%	3D review (Lancaster + 40 miles)
Greenfield area of change (non-developable)	£18,100	30%	£24,000	Agricultural value + 30%	3D review (Lancaster + 40 miles)

5.48 Care homes are tested against the Higher brownfield benchmark, with a premium of 10%, 20% and 30%. The smaller student scheme is tested against the City centre benchmark, again with a premium of 10%, 20% and 30%. The larger student scheme is tested against the Small greenfield benchmark with a premium of 10x, 20x and 30x.

5.49 The benchmarks used in the adopted Local Plan evidence base fit within the spread of benchmarks used in this testing.

Chapter 6 Results of the residential & specialist testing

Introduction

6.1 This chapter summarises results of the residential viability appraisals for LCC. As noted in the testing assumptions earlier, the modelling includes the standard affordable housing, s106, as well as a base set of additional policy costs. Different scenarios are then used to explore the impact of adding in further policy costs where known, with results presented as net residual value on a per dwelling basis (market & affordable combined). This net residual value is the theoretical maximum 'headroom' available to support either further policy costs or CIL.

6.2 Each typology has been subjected to a detailed appraisal, complete with cashflow analysis. A range of different scenarios are then presented, including residential, older person and student housing. Within each set of results a range of benchmark land values is presented as described earlier. This is to allow the council to come to a view around what the appropriate landowner incentive could be within each of the tested scenarios.

6.3 In terms of policy costs the a) base scenarios cover:

- Accessibility costs for 20% of all dwellings.
- Affordable housing at the appropriate rates for each value area.
- Standard s106 (£4,400 per dwelling for generic typologies and specific s106 for the strategic sites).
- Provision for EV chargers.
- Provision for bio-diversity net gain.

6.4 The additional cost scenarios then add the following:

- b) Allowances for changes to Part L to deliver 31% reduction in carbon as part of changes to building regulations 2021.
- c) Costs of Future Homes Standard 2025.
- d) Allowance to move to a fabric first approach (Passivhaus equivalent) standard.
- e) Allowance to move to net zero carbon position (based on Passivhaus Plus equivalent cost).

6.5 As explained earlier, the cost to meet the 2021 standards and those of a Passivhaus equivalent standard are the same at a 4% increase in base build cost. Therefore, the results will be the same for both these standards and for simplicity are only reported once in the summary graphs.

6.6 The results are summarised below, with the full residential testing results in Appendix J and appraisal summary sheet examples (one for each typology) in Appendix K[32]. The results are presented as net viability 'headroom' per dwelling after all costs including construction and other development costs (fees, return, policy costs and land costs) have been deducted. Where the headroom is positive the typology can be considered viable.

Generic site typologies results – urban areas

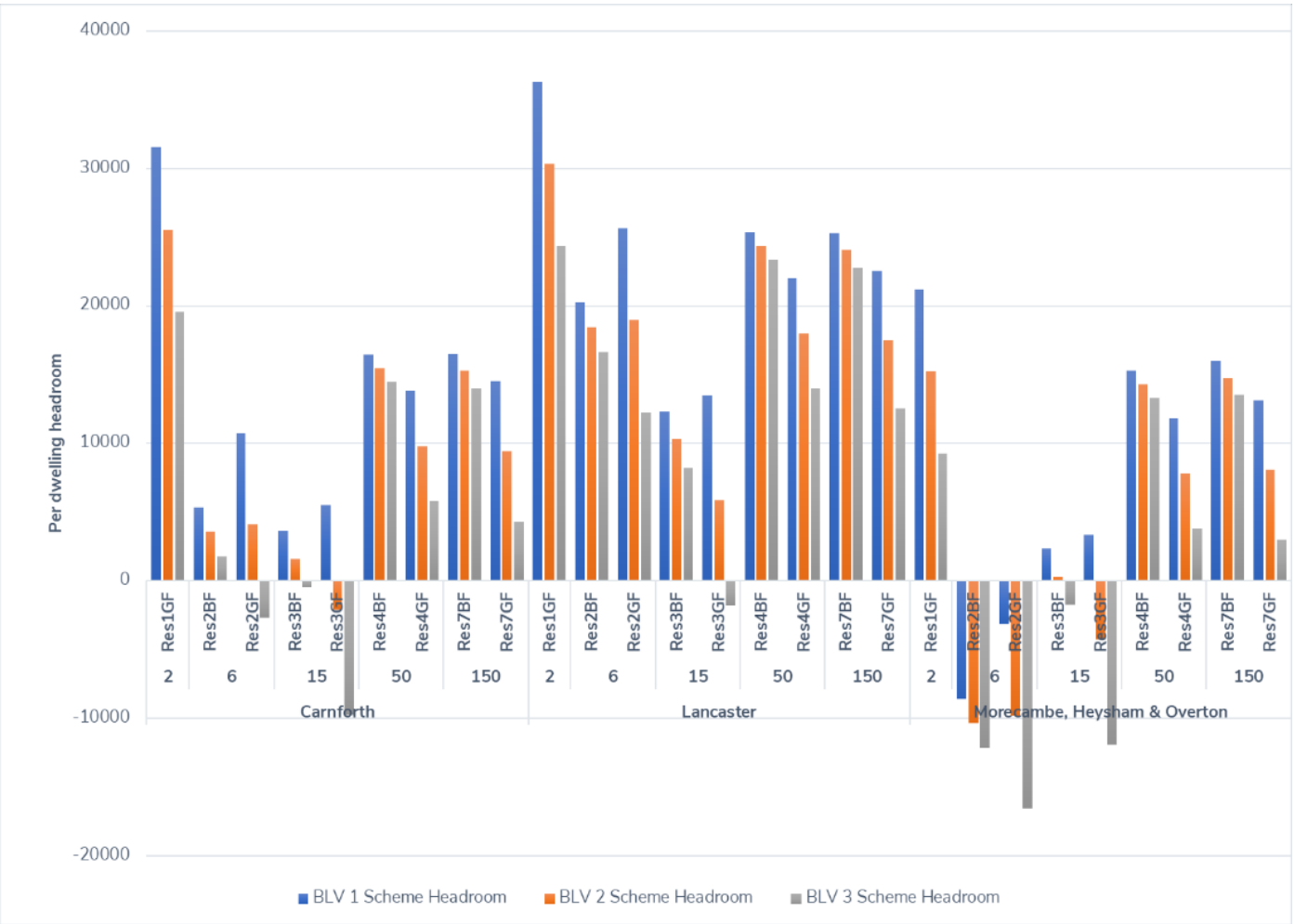
6.7 The generic site typologies include schemes with less than 10 dwellings that are not required to provide affordable housing in urban areas as well as a set of schemes between 15 dwellings and 150 dwellings that will provide affordable housing at the appropriate proportion.

Commentary on urban a) baseline position (no improvement to 2013 building regulation standards)

- The viability for the generic typologies across the urban areas is relatively strong and there is the opportunity to support some additional costs for environmental improvements.
- The majority of typologies are viable at all levels of benchmark land value – however the 15 dwelling scheme, which is the first in these areas where affordable housing is sought, is less viable at the higher benchmark land value. Also, the scheme of 6 dwellings in the Morecambe/Heysham/Overton value area is unviable – however a more favourable (larger dwellings) dwelling mix would improve the viability.

[32] Please note that whilst the additional building standards have been cashflowed, they are not shown within the summary appraisals (in Appendix K – however the additional building standard cost is shown in the results sheet (in Appendix J)

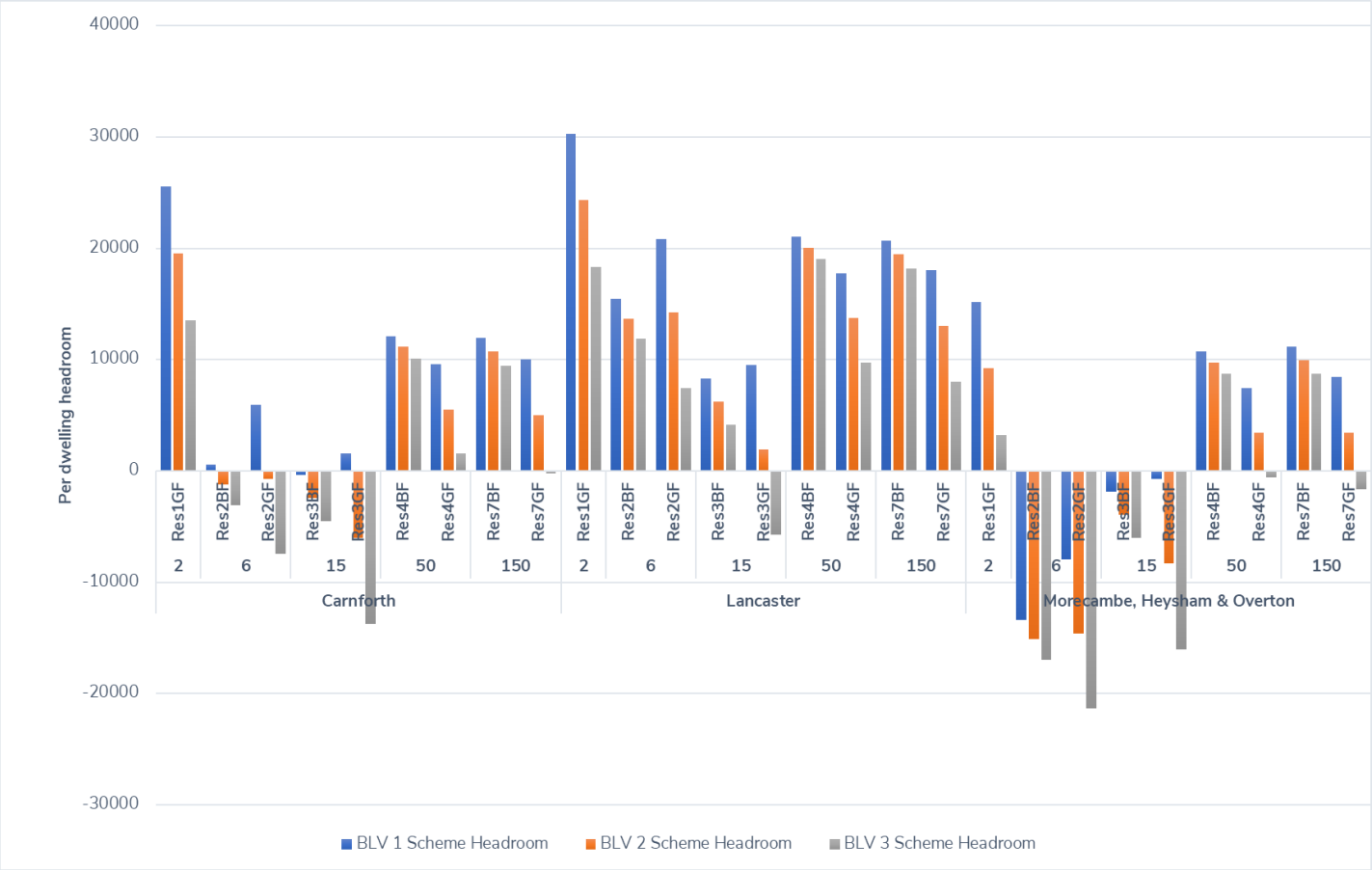
Figure 6.1 a) Baseline results (assumes no improvements to current building standards (2013) – urban area



Commentary on urban with the b) & d) 2021 building regs standards/fabric first Passivhaus equivalent

- The viability results are the same for the 2021 building regs and fabric first Passivhaus equivalent - with the generic sites across the urban areas generally being viable.
- The majority of sites work at the lower levels of benchmark land value, with the larger sites of 50 dwellings and over also viable or only marginally unviable at the higher benchmark land value. In common with the baseline tests, the 15 dwelling scheme, which is the first in these areas where affordable housing is sought, is less viable with sites in Carnforth and Morecambe marginal or unviable. The scheme of 6 dwellings in the Morecambe/Heysham/ Overton value area continues as unviable – however a more favourable (larger dwellings) dwelling mix would improve the viability.

Figure 6.2 b) & d) Building standards 2021/fabric first (Passivhaus equivalent) – urban area



Commentary on urban with the c) 2025 Future Homes building regs

- The results show a reduced headroom across all typologies due to the significant increases in build costs that the introduction of the Future Homes Building regulations in would entail with an energy/heat technical approach rather than design/fabric approach.
- The majority of the larger sites are still viable with the lower to medium benchmark land values. However, at the higher benchmark land values, the smaller sites in both Carnforth and Morecambe, Heysham and Overton, are shown to be unviable using current costs and values – noting that neither government nor local policy would be looking to introduce these standards now.

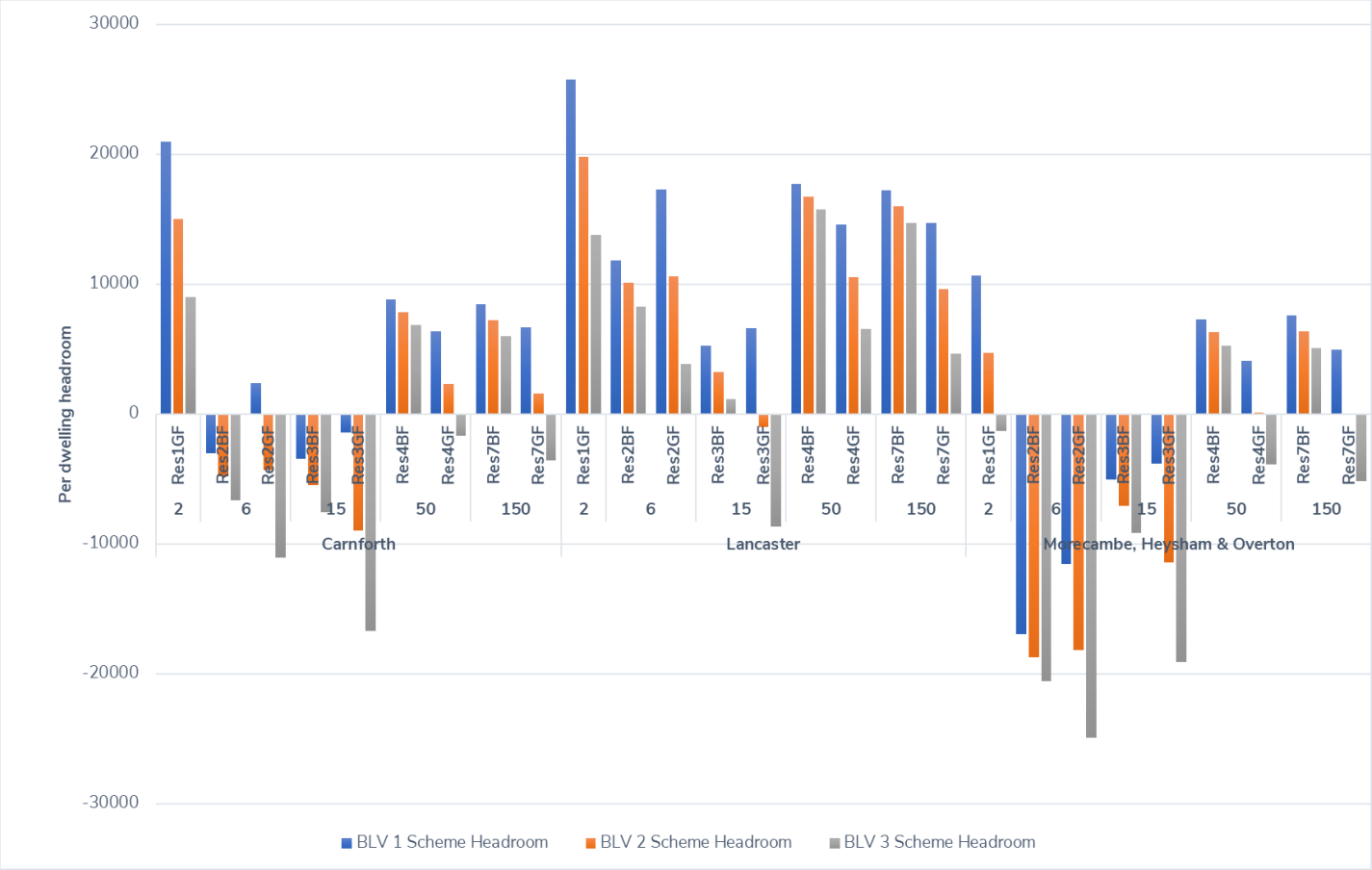
Figure 6.3 c) Proposed Future Homes building standards 2025 – urban area

Commentary on urban e) net zero approach to building standards (Passivhaus plus equivalent)

- The majority of sites in the urban areas are shown to be viable using this approach to building standards.
- Whilst all the larger sites work across the lower benchmark land value and nearly all with the medium to higher land values across the three value areas, it is the 6 and 15 dwelling schemes that are less viable. This is especially apparent in the Morecambe, Heysham and

Overton area, where these sites are not shown as viable in terms of meeting the standard land value and developer return expectation and current costs and values – however as previously noted, neither government nor local policy would be looking to introduce these particular standards now.

Figure 6.4 e) Proposed net zero approach (Passivhaus plus equivalent) – urban sites



Generic site typologies results – rural areas

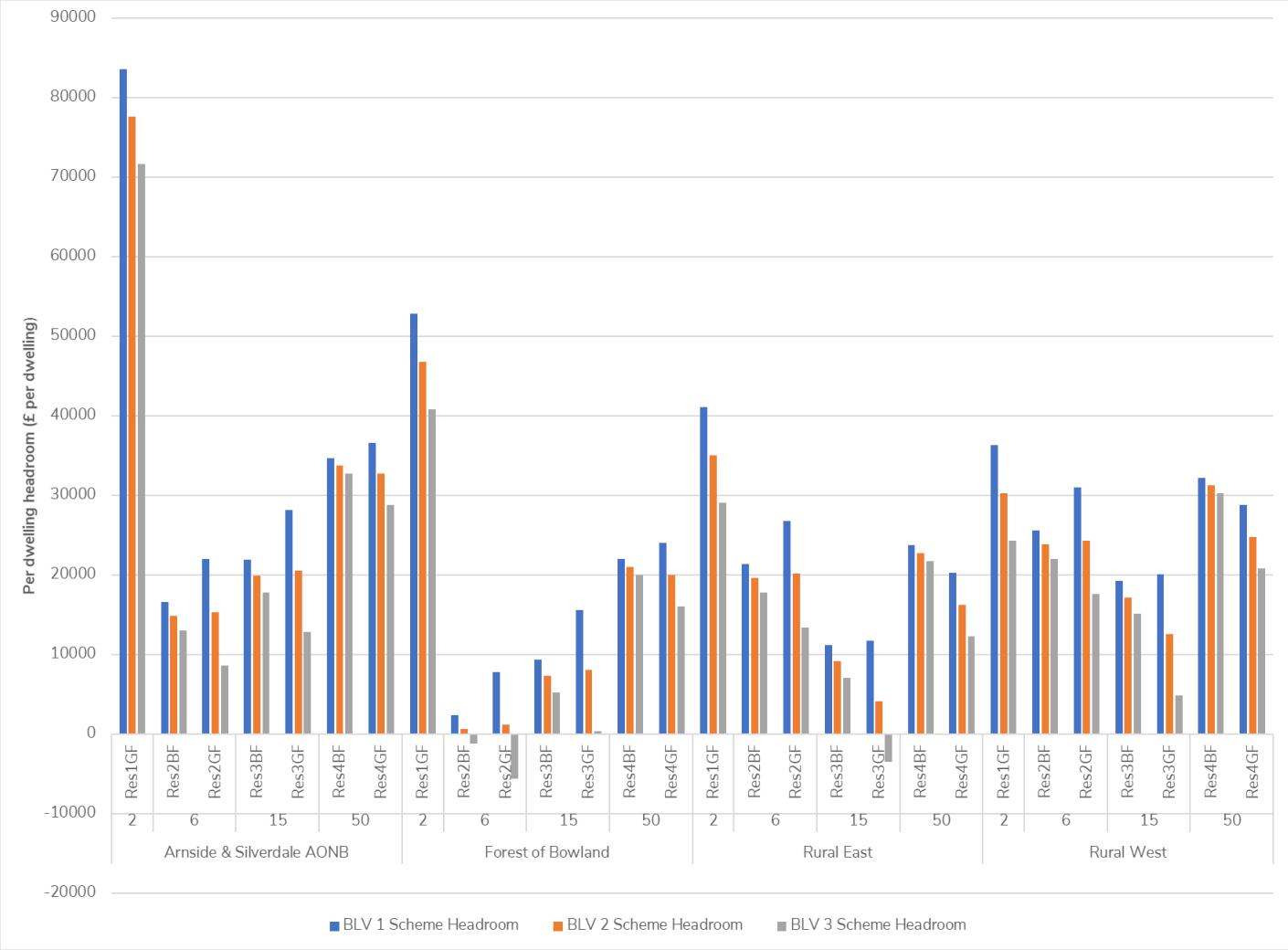
6.8 The generic site typologies include schemes with less than 10 dwellings that are not required to provide affordable housing in rural east and west as well as a set of schemes between 15 dwellings and 50 dwellings that will provide affordable housing. In the AONB areas the affordable housing threshold is lower at 2 plus dwellings, therefore all the typologies include affordable housing here.

Commentary on rural a) baseline position (no improvement to 2013 building regulation standards)

- The viability for the generic sites across the rural areas is very strong and there is the opportunity to support additional costs for environmental improvements.

- Nearly all of the typologies are viable at all levels of benchmark land value. All typologies are viable at the lowest and medium benchmark land value and only three typologies are not viable at the highest benchmark land value and, even with these, a small adjustment in costs or values would produce a viable scheme.

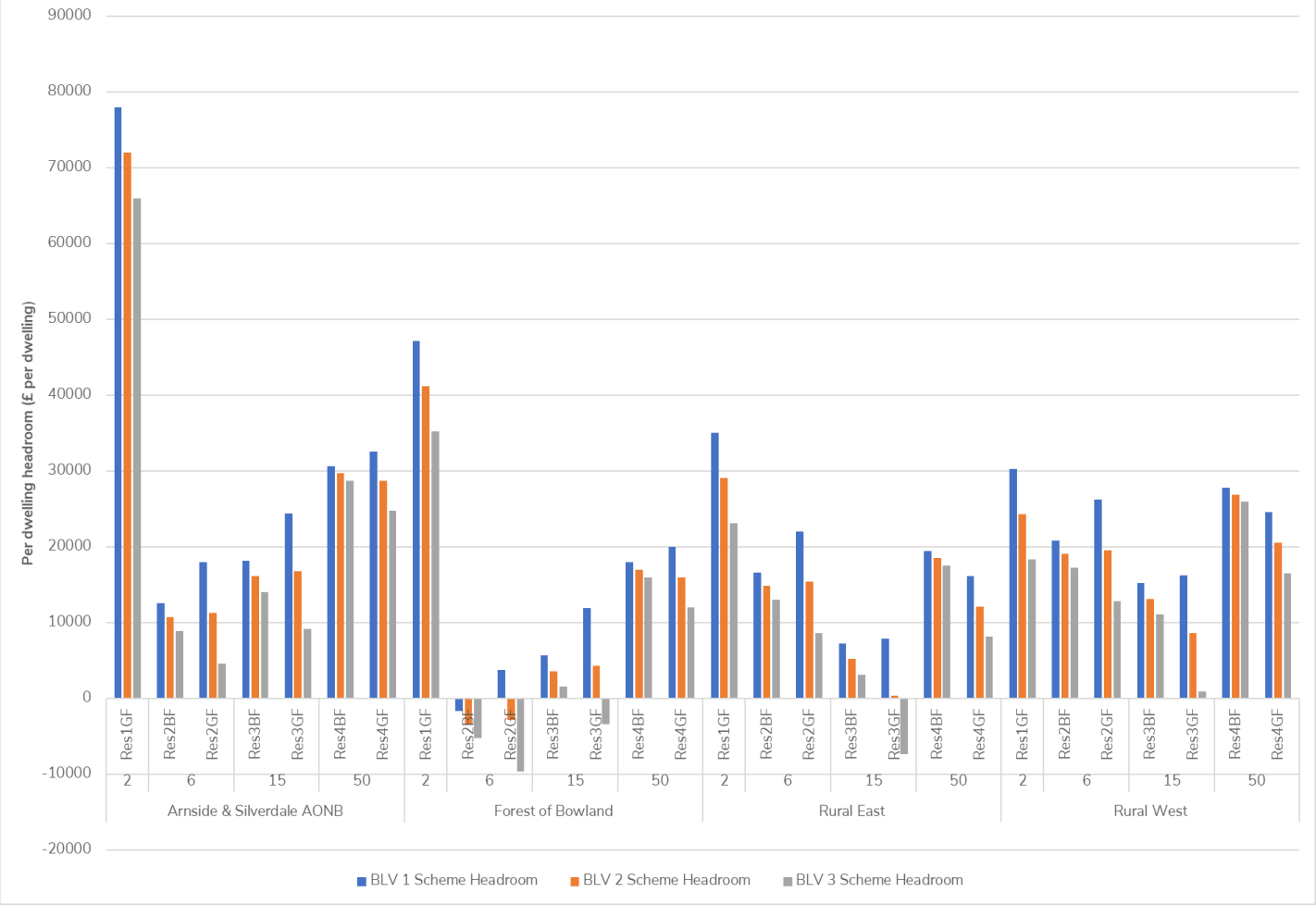
Figure 6.5 a) Baseline results (assumes no improvements to current building standards (2013) – rural area



Commentary on rural with the b) & d) 2021 building regs standards/fabric first Passivhaus equivalent

- The viability for the generic sites across the rural areas continues to be very strong and there is scope for further contributions.
- Nearly all of sites work at all levels of benchmark land value – the exception is sites of 15 in Forest of Bowland and Rural East, where the viability is negative at the highest land value and on sites of 6 in the Forest of Bowland where viability is negative apart from brownfield sites at the lowest benchmark land value.

Figure 6.6 b) & d) Building standards 2021/fabric first (Passivhaus equivalent) – rural area

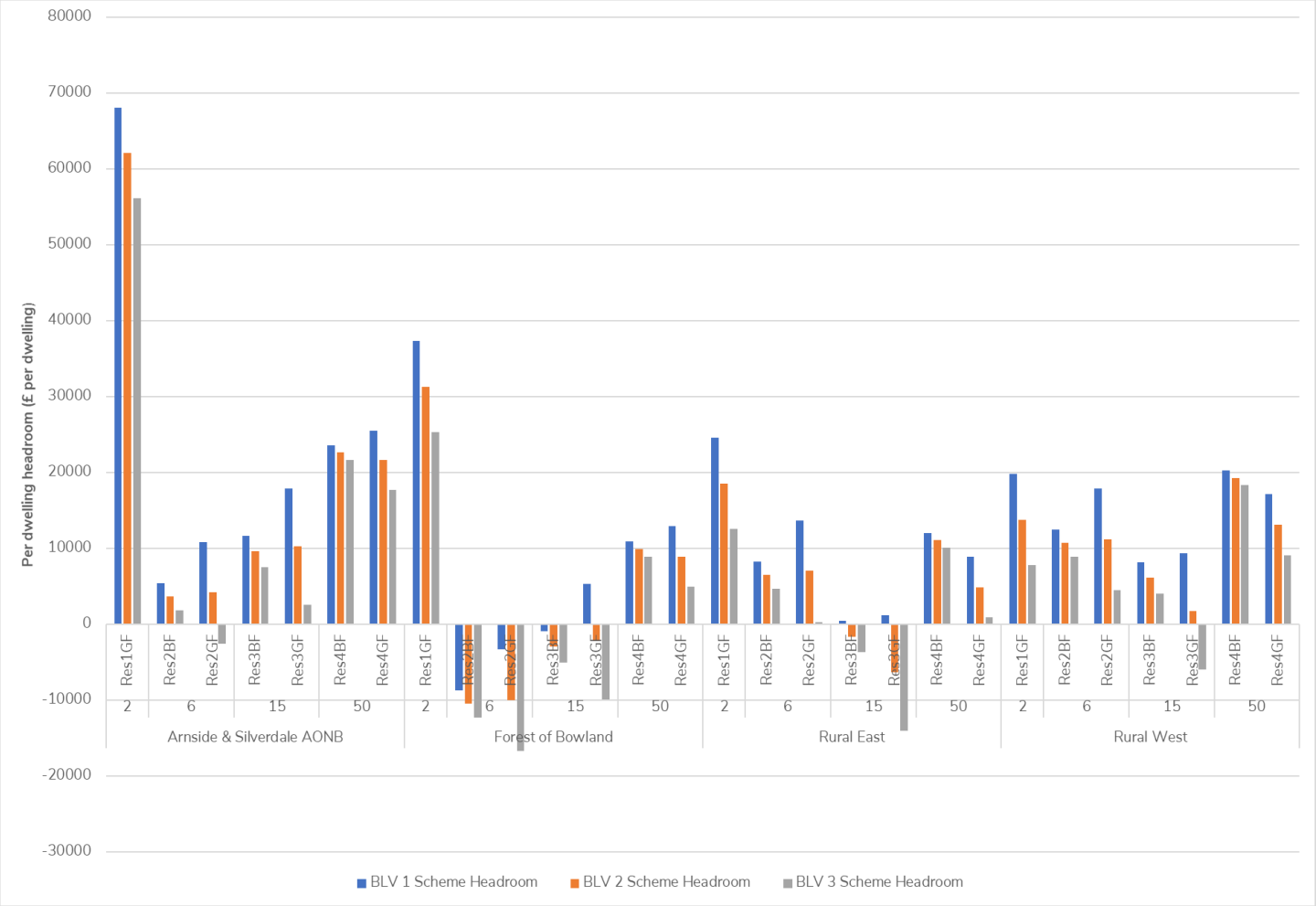


Commentary on rural with the c) 2025 Future Homes building regs

- Whilst the viability headroom is reduced across all typologies, it can be seen that most are still viable across all the benchmark land values.
- The exceptions are in rural east and west where sites of 15 are not viable at the highest benchmark land value. In the Forest of Bowland sites of 6 and 15 dwellings are not viable

across all the benchmark land values with sites of 6 dwelling in particular struggling – however this may be negated with a more favourable mix to increase values to offset the higher build costs.

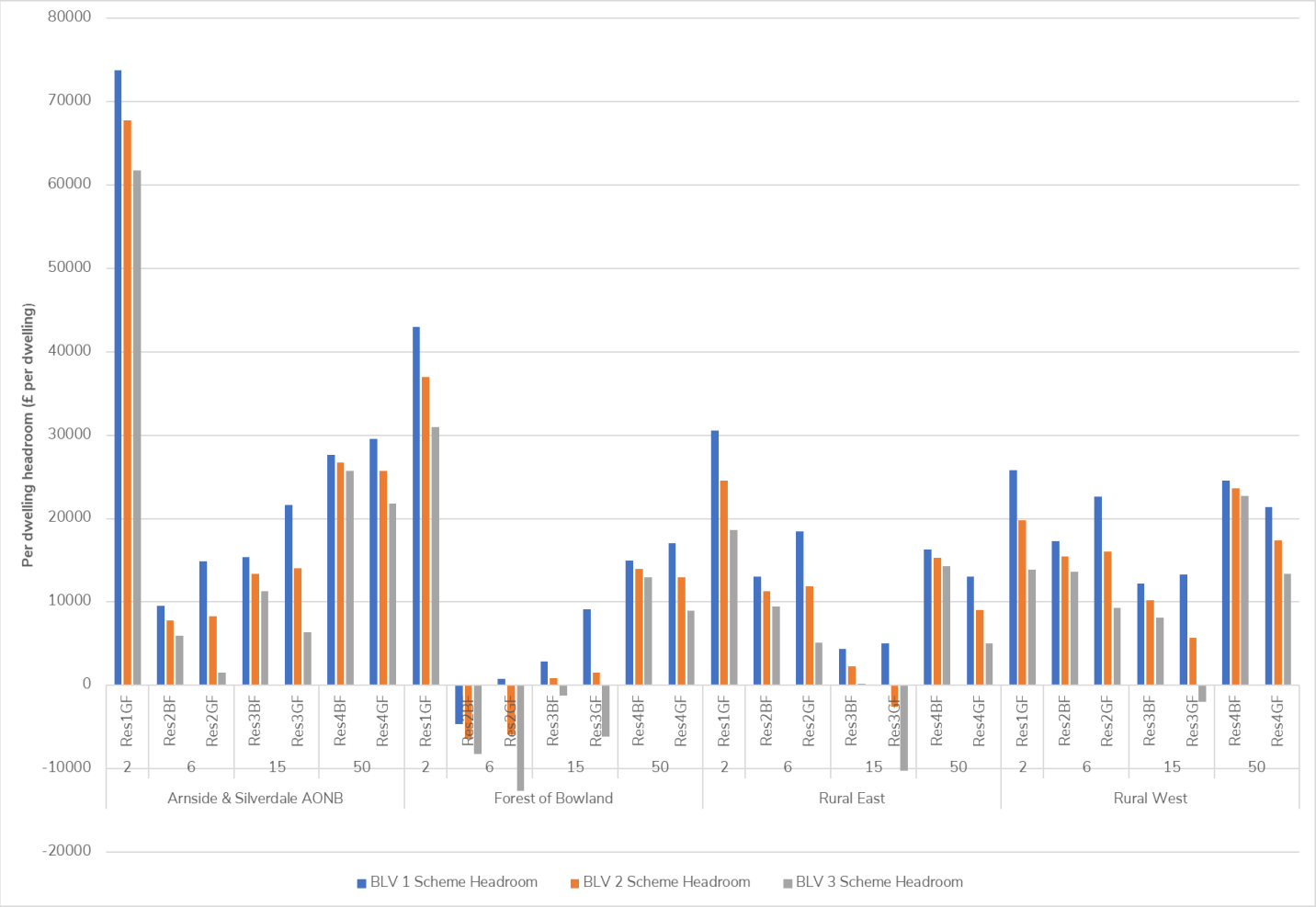
Figure 6.7 c) Proposed Future Homes building standards 2025 – rural area



Commentary on rural e) net zero approach to building standards (Passivhaus plus equivalent)

- The majority of sites are viable across all the benchmark land values.
- The exceptions are in rural east where the medium and highest benchmark is not achieved for the 15 dwelling greenfield schemes. In the Forest of Bowland sites of 6 and 15 dwellings are not viable across all the benchmark land values with sites of 6 dwellings on brownfield sites in particular struggling – however this may be negated with a more favourable mix to increase values to offset the higher build costs.

Figure 6.8 Proposed e) net zero approach (Passivhaus plus equivalent) – rural sites



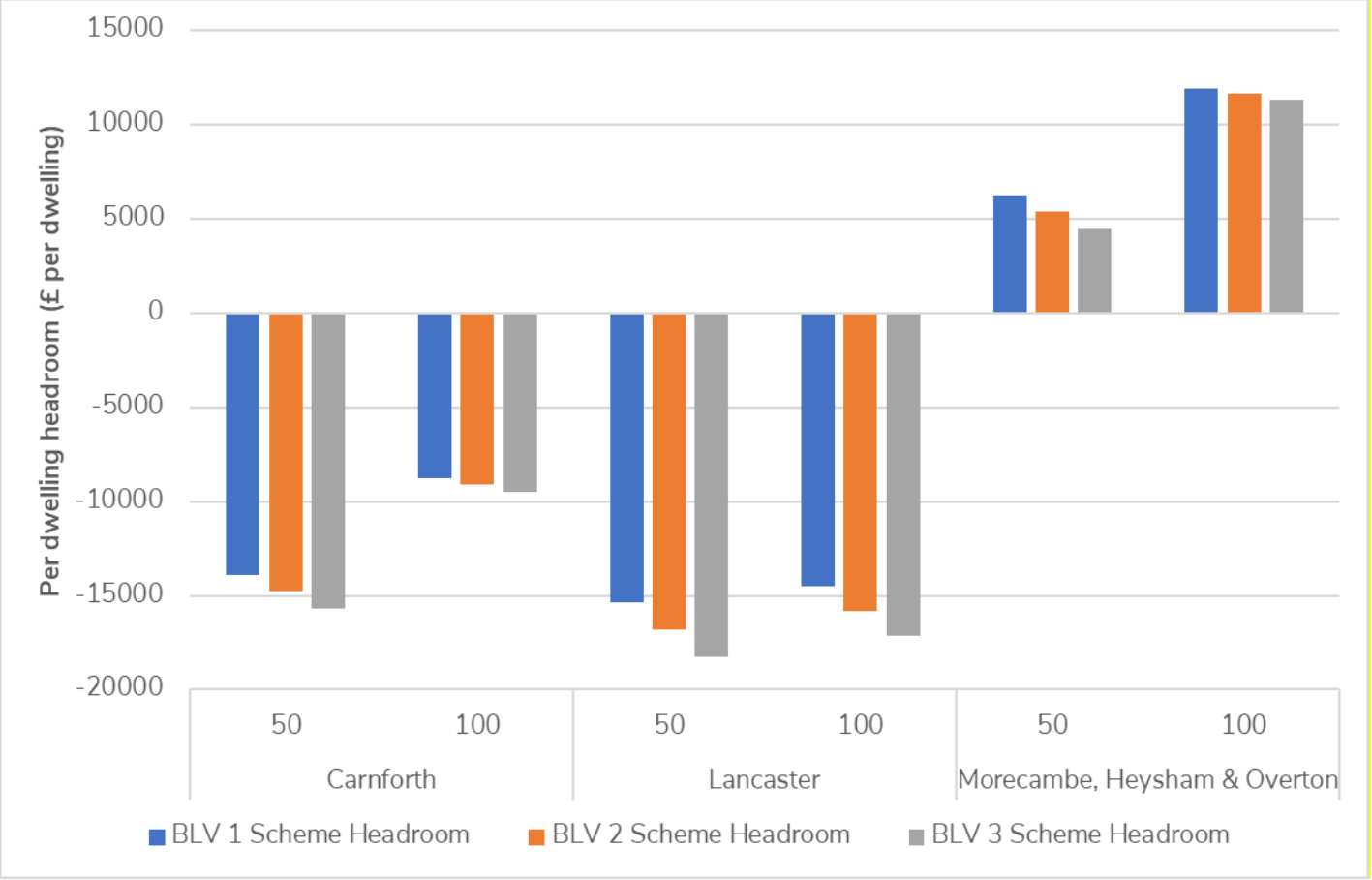
Generic site typologies results – high density apartment schemes

6.9 The generic high density typologies do not include affordable housing as set out in current local plan policy. However, they do incur higher build costs than housing developments and have non 'saleable' space which incur costs but do not generate value.

Commentary on a) high density baseline position (no improvement to 2013 building regulation standards)

- The viability for flatted development is poor in Lancaster and Carnforth, which is illustrated by LCC confirming the limited number of flat only schemes that come forward in these areas and why alternatives such as purpose build student accommodation are a more attractive investment.
- In Morecambe, Heysham and Overton, whilst values are generally lower in these areas the market for high quality flats, normally with sea views is a feature of the local market, with higher values being achieved, such that schemes become viable.

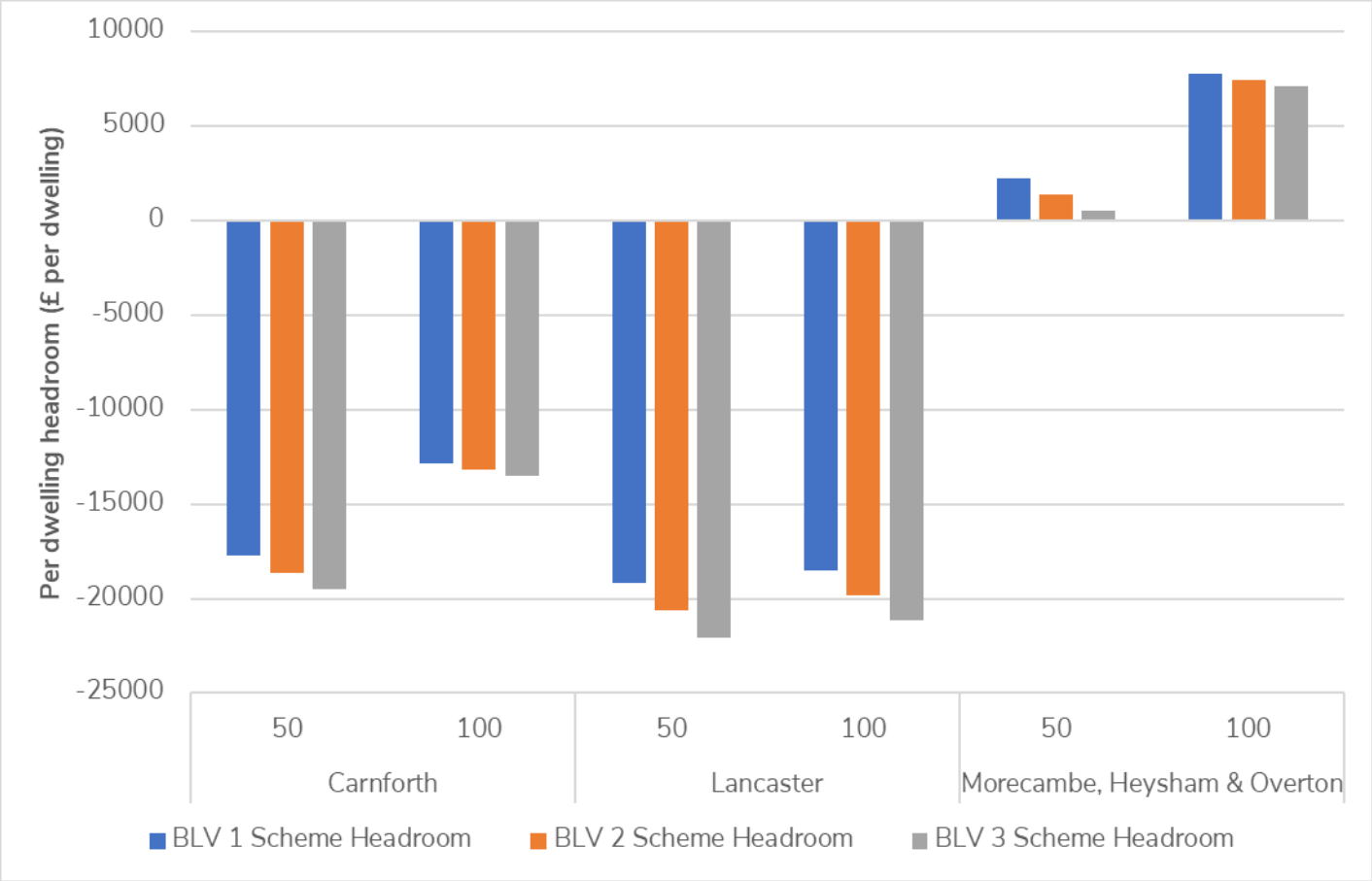
Figure 6.9 a) Baseline results (assumes no improvements to current building standards (2013) – high density



Commentary on b) & d) high density with the 2021 building regs standards/fabric first Passivhaus equivalent

- The viability for flatted development remains poor in Lancaster and Carnforth with development less likely for flat led schemes.
- In Morecambe, Heysham and Overton, values are sufficiently high to accommodate an increased policy cost.

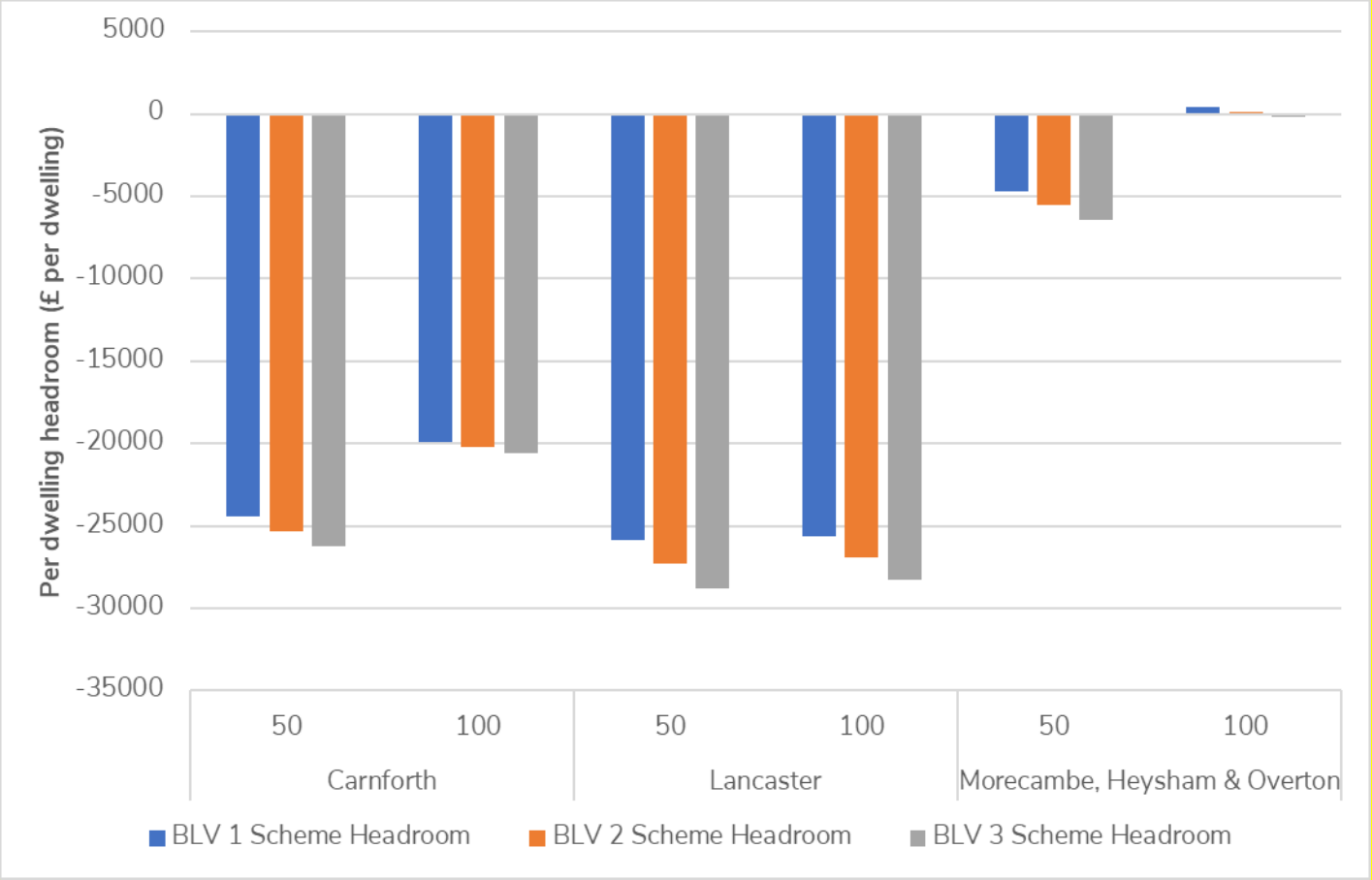
Figure 6.10 b) & d) Building standards 2021/fabric first (Passivhaus equivalent) – high density



Commentary on c) high density with the 2025 Future Homes building regs

- Only the larger flat led scheme in Morecambe, Heysham and Overton is viable with the 2025 standards.

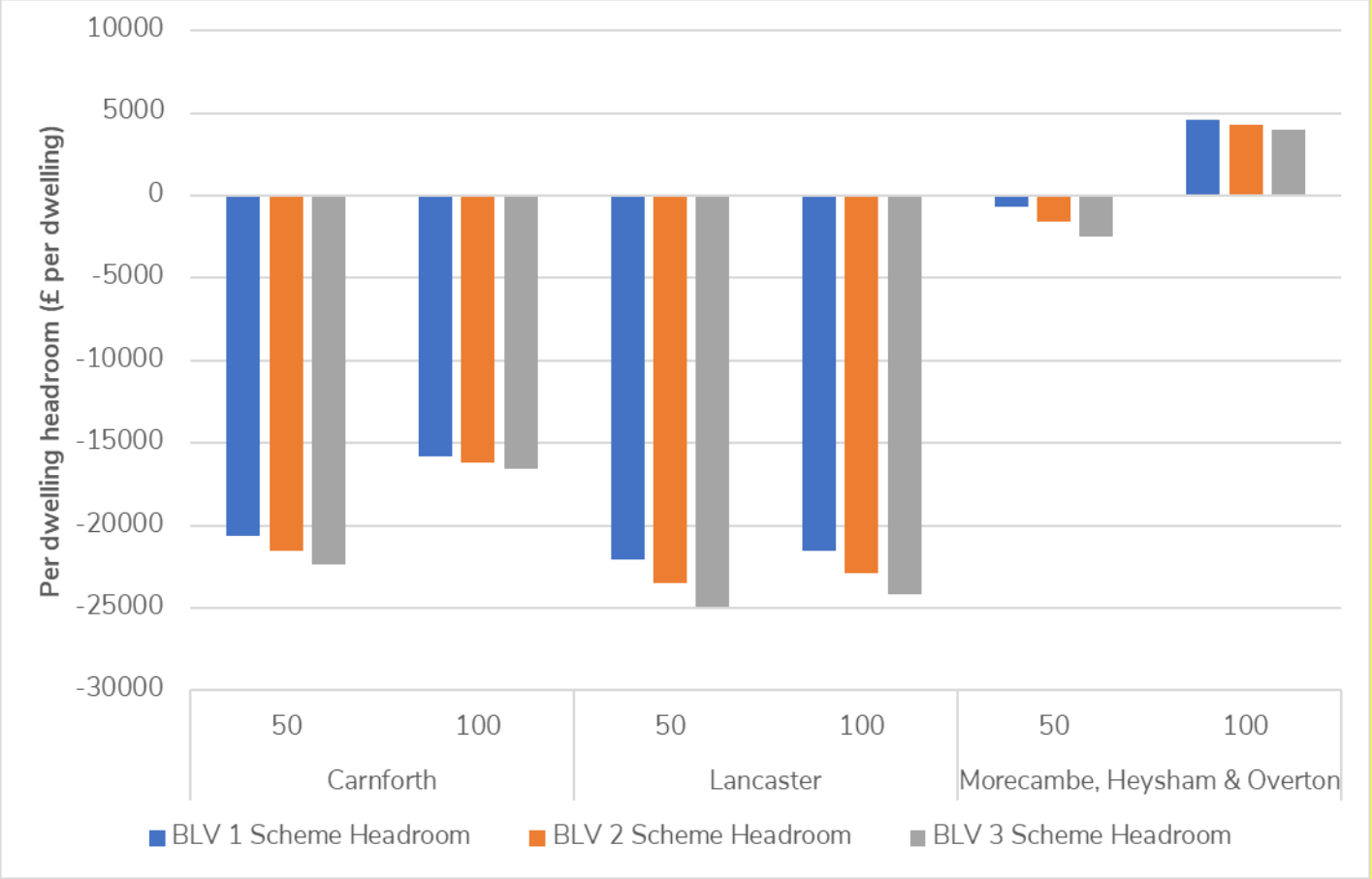
Figure 6.11 c) Proposed Future Homes building standards 2025 – high density sites



Commentary on e) high density with a net zero approach to building standards (Passivhaus plus equivalent)

- The 100 dwelling scheme is viable and at the lowest benchmark land value the 50 dwelling scheme is marginal in the Morecambe, Heysham and Overton area.
- All other tested scenarios are not viable.

Figure 6.12 e) Proposed net zero approach (Passivhaus plus equivalent) – high density sites



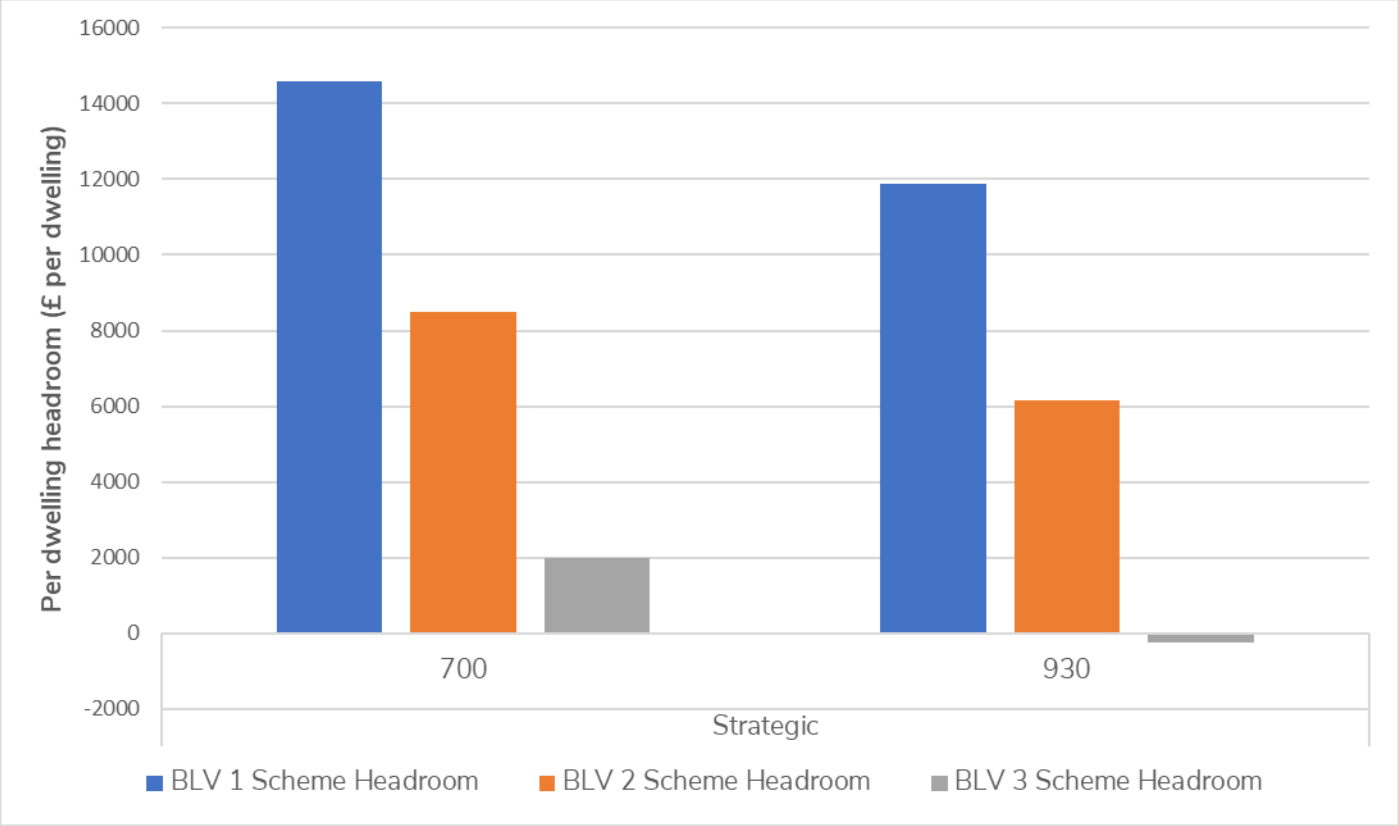
Strategic sites results

6.10 The strategic site schemes include current local plan policy compliant affordable housing at 30% of dwellings. As these are much larger sites there is a higher site infrastructure costs and higher s106 contributions. With a greater policy and infrastructure requirement, the benchmark land values should be considered in relation to those with a lower burden.

Commentary on a) strategic sites baseline position (no improvement to 2013 building regulation standards)

- The viability for the two strategic sites (Res8 – 700 dwellings and Res9 – 930 dwellings) is relatively strong and there is the opportunity to support some additional costs for environmental improvements.
- The sites are generally viable at all levels of benchmark land value – although the larger Res9 is marginal with the highest of the benchmark land values.

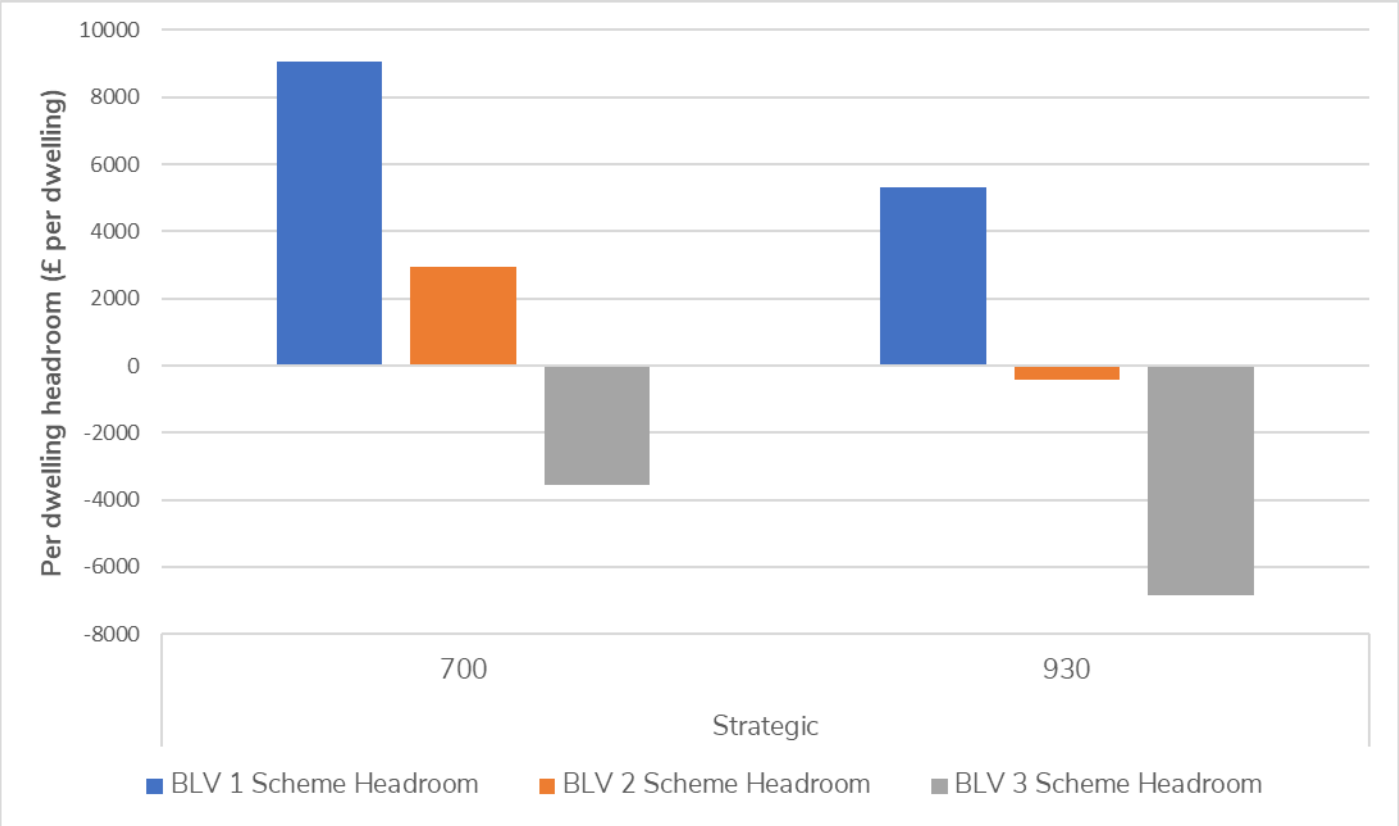
Figure 6.13 a) Baseline results (assumes no improvements to current building standards (2013) – strategic sites



Commentary on b) & d) strategic sites with the 2021 building regs standards/fabric first Passivhaus equivalent

- The viability for the two strategic sites (Res8 – 700 dwellings and Res9 – 930 dwellings) remains strong with potentially some scope for additional contributions.
- The sites are viable/marginal at the lower and medium levels of benchmark land value – although both sites are unviable with the highest of the benchmark land values.

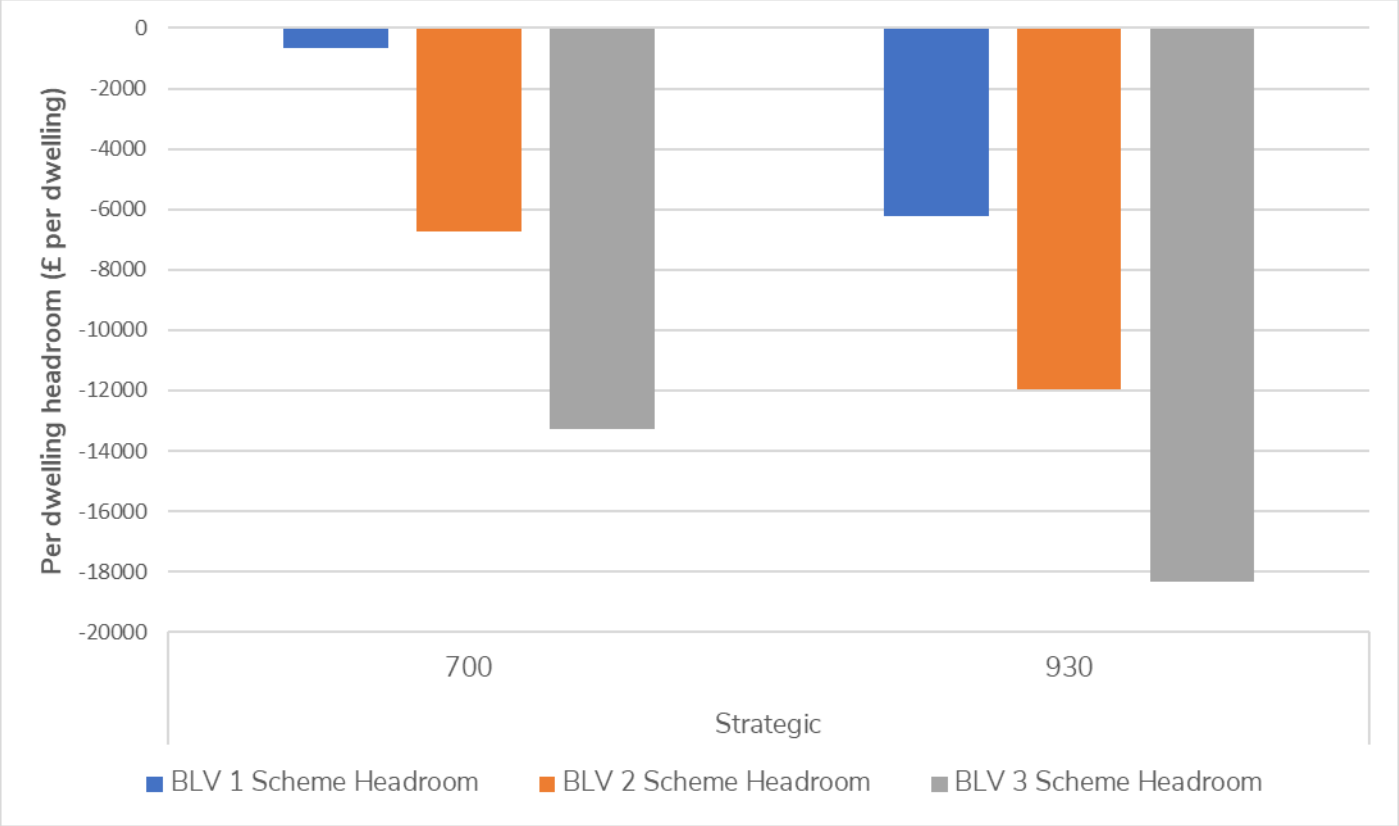
Figure 6.14 b) & d) Building standards 2021/fabric first (Passivhaus equivalent) – strategic sites



Commentary on c) strategic sites with the 2025 Future Homes building regs

- The viability headroom for the two strategic sites (Res8 – 700 dwellings and Res9 – 930 dwellings) is significantly reduced under this scenario.
- Res8 could be considered as marginal at the lowest benchmark land value but it is clear that viability would be an issue across all land values for both Res8 and Res9.

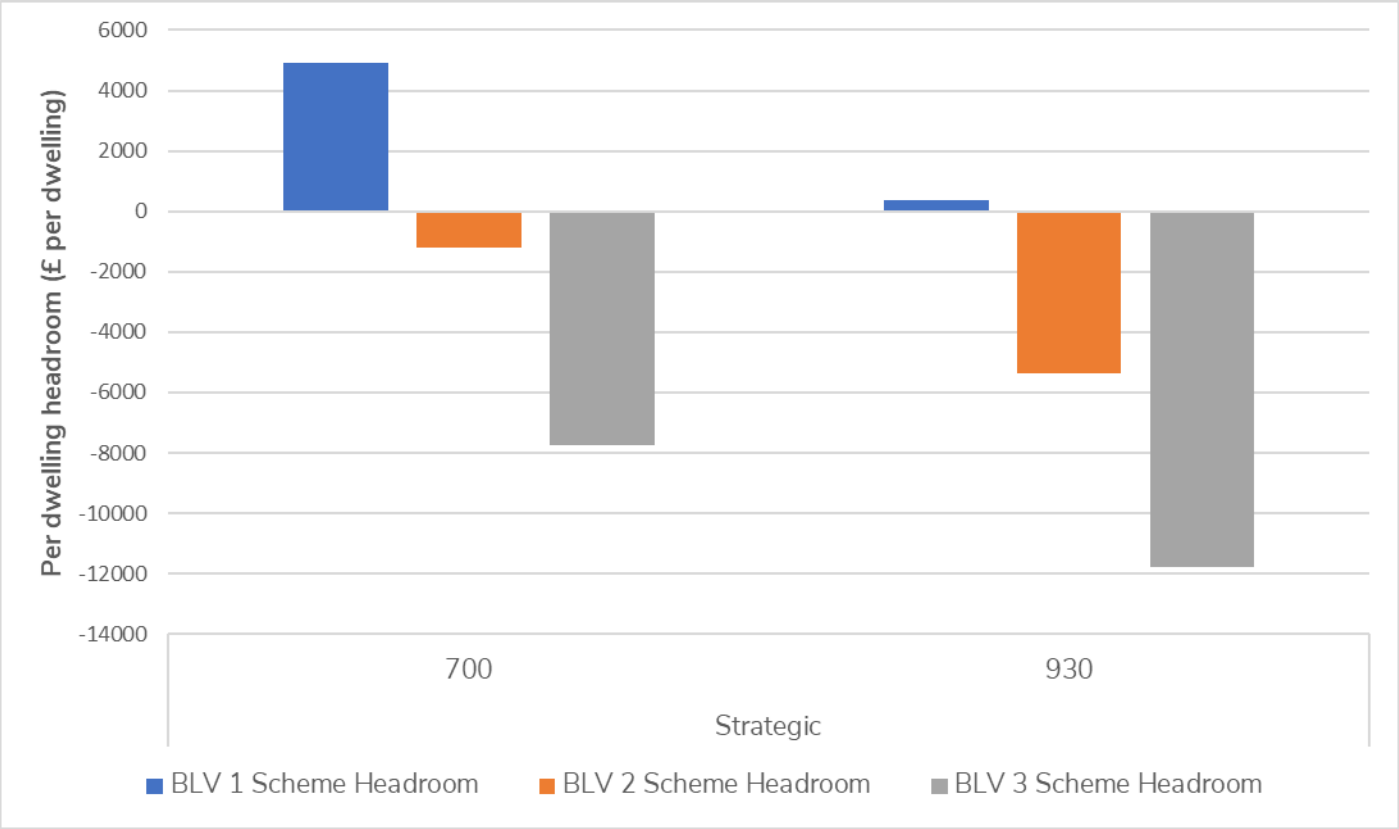
Figure 6.15 c) Proposed Future Homes building standards 2025 – strategic sites



Commentary on a e) strategic sites with a net zero approach to building standards (Passivhaus plus equivalent)

- The viability headroom for Res8 – 700 dwellings, shows a viable scheme with the lowest benchmark land value, marginal at the medium land value and not viable at the highest land value.
- In term of Res 9 – 930 dwellings it is viable at the lowest benchmark land value but would not be able to support the medium or high land values.

Figure 6.15 e) Proposed net zero approach (Passivhaus plus equivalent) – strategic sites



Impact of alternative building standard approaches

6.11 To help inform the council's decision making as well as show all the individual results the next set of graphs show the impact of different building standards using some example typologies at the mid benchmark (Lancaster) and at the lower benchmark land value (strategic sites). They are the same results as shown above but using an alternative presentation.

Figure 6.16 Sample typologies illustrating the impact of alternative building standards – Lancaster value area

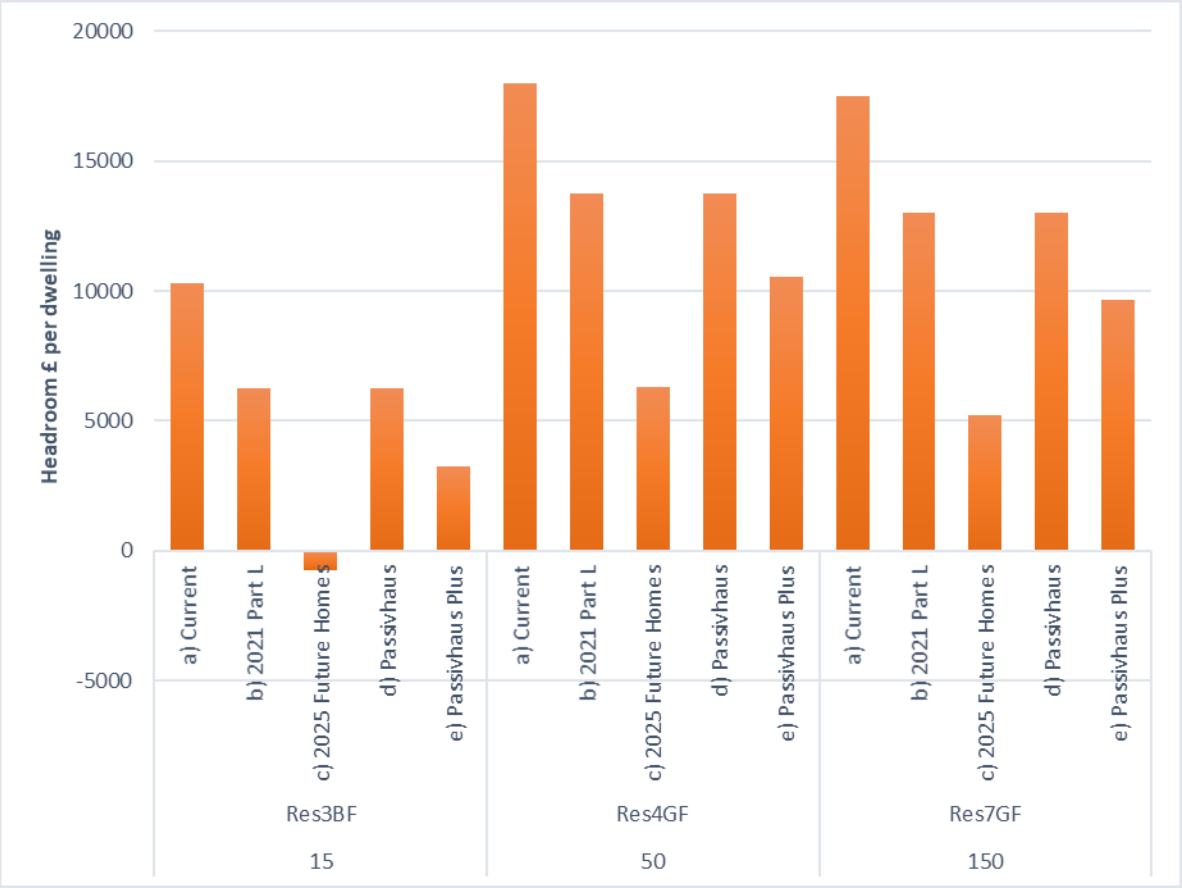
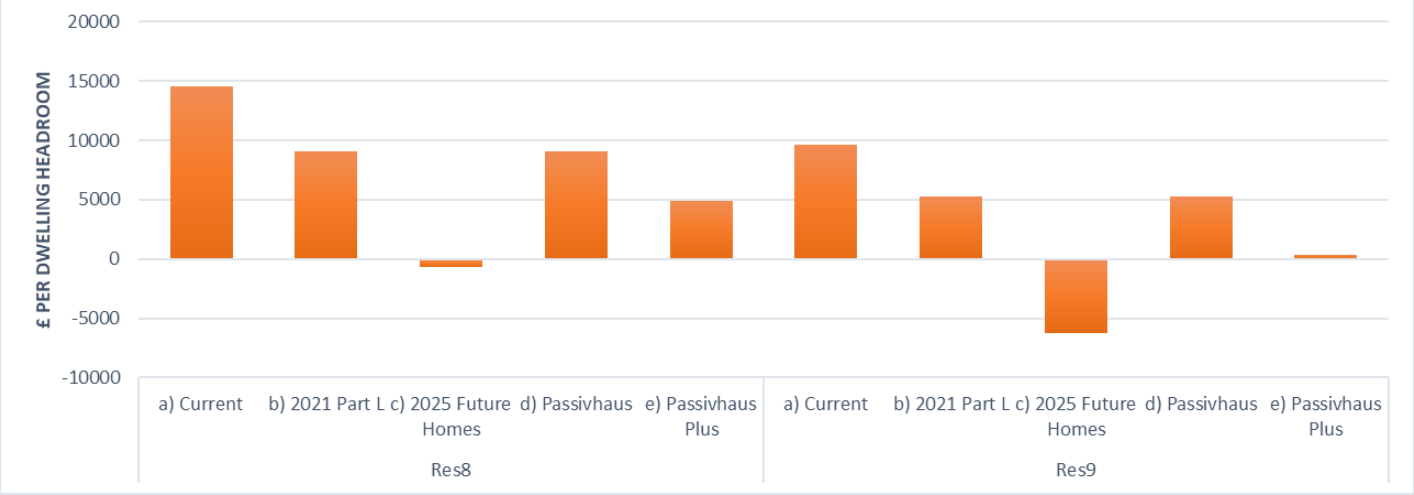


Figure 6.17 Sample typologies illustrating the impact of alternative building standards – strategic sites



6.12 The graphs shown in figure 6.16 and 6.17 above clearly show that the 2025 Future Homes building standard has the biggest impact on viability. All the other building standard scenarios are viable indicating that LCC will be able to bring in standards that seek to improve the performance of new development and that they can meet and exceed the proposed government standards for 2021.

First Homes

6.13 Due to the uncertainty in respect of operation and agreement over standard assumptions of this previously untested tenure, the testing has been limited to

- the two strategic sites Res8 and Res 9 and Res3 BF across all value areas
- introduction of the 2021 Building Regs
- the mid-range benchmark land value.

6.14 These are considered as reasonable (conservative) scenarios in respect of the future supply and therefore provide a realistic summary of potential impact of First Homes.

Commentary on impact of First Homes with scenario b) & d) strategic sites and Res3BF with mid benchmark land value and the 2021 building regs standards/fabric first Passivhaus equivalent

- As there is no affordable housing requirement in the Morecambe, Heysham and Overton value area, First Homes has no impact as it is applicable when affordable housing is part of the housing mix.
- Where affordable housing is required the level of impact is highest where overall proportion of affordable housing is highest i.e. for the two AONB areas.
- In the other areas the impact is deminimus at 0.1% of GDV.
- Therefore, assuming that First Homes operates as described it will have a minimal effect on viability across the district.

Table 6.1 Impact of First Homes

Value area	Typology	Base case RV	First Homes RV	Change	Change as a percentage of GDV
Carnforth	Res3BF	-£36,431.09	-£38,970.09	£2,539	0.1%
Lancaster	Res3BF	£94,004	£91,315	£2,689	0.1%
Rural West	Res3BF	£197,645	£194,724	£2,921	0.1%
Morecambe, Heysham & Overton	Res3BF	-£58,497	-£58,497	£0	0.0%
Rural East	Res3BF	£78,817	£74,613	£4,204	0.1%
Forest of Bowland AONB	Res3BF	£54,310	£46,726	£7,584	0.3%

Value area	Typology	Base case RV	First Homes RV	Change	Change as a percentage of GDV
Arnside & Silverdale AONB	Res3BF	£242,181	£234,010	£8,171	0.3%
Strategic	Res8GF	2,073,282	1,882,598	£190,684	0.1%
Strategic	Res9GF	-403,575	-657,305	£253,730	0.1%

Older persons and purpose built student accommodation

6.15 Three older person housing typologies were tested - sheltered, extra care and care homes. The sheltered and extra care housing typologies were tested on brownfield sites as these were the most likely locations for their development. None of the testing included affordable housing, however the standard s106 was applied.

6.16 There is no evidence to suggest any variation in value for older persons housing across the district, therefore only one set of value tests were undertaken. All the results show, even at the lowest benchmark land value and zero affordable housing and no CIL, the residual value is far short of a viable level.

6.17 The sheltered, extra care housing and care home typologies are also not able to support either affordable housing or CIL. Policy should clearly exclude these forms of contributions from these development types.

6.18 The two purpose built student accommodation schemes tested are viable and able to support a CIL.

Table 6.2 Older person and student testing results

Type	RV (inc land & return)	Scheme headroom (per sqm)	RV (inc land & return)	Scheme headroom (per sqm)	RV (inc land & return)	Scheme headroom (per sqm)
	BLV 1		BLV 2		BLV 3	
OP1 Sheltered - BF[33]	-£1.33m	-£266	-£1.36m	-£273	-£1.40m	-£280
OP2 Extra care - BF	-£1.57m	-£282	-£1.61m	-£289	-£1.66m	-£297
OP3 Carehome - GF	-£1.36m	-£452	-£1.37m	-£457	-£1.39m	-£462
STU Student – BF	£0.59m	£191	£0.59m	£189	£0.58m	£186
STU Student – GF	£2.02m	£145	£1.96m	£140	£1.89m	£136

[33] For OP1 and OP2 it is assumed that the 2021 building standards will apply

Chapter 7 Non residential assumptions and results

Introduction

7.1 Other than the building standards and EV changing points, the majority of proposed policies within the Local Plan are not considered to significantly add to the development costs for non-residential uses in the Plan period. Within the testing we have made some allowances for s106 contributions (e.g. minor highways and travel planning[34]), and included EV charging and meeting the BREEAM excellent standard. This section sets out the assumptions used for the non-residential viability testing.

7.2 The viability analysis undertaken has been based on a residual value approach in which scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme revenue is based on revenue from the property and scheme costs assume a return to the developer and 'development costs' include build costs and other costs such as professional fees, finance costs and marketing fees.

7.3 From the 'gross residual value' calculated an allowance for site purchase is deducted based on Existing Use Value plus site purchase costs (agents and legal fees) to assess the 'residual balance' against which a scheme could support additional costs such EV charging points and a "Climate Change" contribution. This residual balance shows the level of affordability or financial headroom available from which additional contributions can be met.

7.4 The base testing uses the lower end of the benchmark land value range. If the use is viable, we have undertaken sensitivity testing to explore the impact of higher site costs.

7.5 We attach in Appendix L a summary analysis of key comparable transactions.

Establishing Gross Development Value (GDV)

7.6 In establishing the GDV for non-residential uses, this report has also considered historical comparable evidence to inform new values on a local, regional and, for some uses, national, level.

7.7 The following table illustrates the values established for a variety of non-residential uses, expressed in sq m of net rentable floorspace and yield. The table is based on our knowledge of the market and analysis of comparable transaction data provided by EGi and relevant market reports. The rents and yields are capitalised within the toolkit to provide GDV for all the development types. The rents and yields used are set out in table 7.1.

[34] Based on advice from LCC

Table 7.1 Non-residential typologies

Typology	Use	Description	Rent £/sq m /Room capital value	Yield
NR1	Office	Fringe and transport nodes	£132	10.34%
NR2	Office	Lancaster City	£99	10.34%
NR3	Industrial	Fringe and transport nodes	£49	11.08%
NR4	Warehouse	Fringe and transport nodes	£49	11.08%
NR5	Retail convenience	Small local store	£155	6.51%
NR6	Retail convenience	Supermarket	£176	4.77%
NR7	Retail comparison	Town centre	£196	8.31%
NR8	Retail comparison	Out of centre/retail warehouse/park	£196	7.51%
NR9	Hotel	Budget/business	£101,000	6.01%

Development costs

7.8 **Build costs** have been taken from the RICS Build Cost Information Service (BCIS) at the time of this study (current build cost values) and rebased (by BCIS) to LCC prices. The build costs adopted are based on the BCIS mean values shown in the following table. To assess additional environmental standards in buildings we also include additional costs for meeting the requirement for BREEAM excellent. There is limited published information in respect of the impact of build costs to achieve BREEAM standards. We have had regard to 'Briefing Paper – The Value of BREEAM (to include reference to Tata Steel, British Constructional Steelwork Association Limited, AECOM, Cyril Sweett, The Steel Construction Institute, Development Securities PLC, 2012)' in respect of increase of capital construction costs. This does not cover all typologies tested and we have therefore used the most similar types where appropriate.

Table 7.2 Build costs

Typology	Use	Description	Build cost (£ per sqm)	External Costs (%)	BREEAM Excellent (% increase over build cost)
NR1	Office	Fringe and transport nodes	£1,629	10%	0.77%
NR2	Office	Lancaster City	£1,654	10%	0.77%

Typology	Use	Description	Build cost (£ per sqm)	External Costs (%)	BREEAM Excellent (% increase over build cost)
NR3	Industrial	Fringe and transport nodes	£788	10%	0.40%
NR4	Warehouse	Fringe and transport nodes	£651	10%	0.40%
NR5	Retail convenience	Small local store	£1,348	10%	1.76%
NR6	Retail convenience	Supermarket	£1,390	10%	1.76%
NR7	Retail comparison	Town centre	£1,357	10%	1.76%
NR8	Retail comparison	Out of centre/retail warehouse/park	£815	10%	1.76%
NR9	Hotel	Budget/business	£1,395	10%	0.77%

7.9 Other costs - there are a range of other costs that are included within the assessment. The costs identified reflect typical/industry-standard costs and appraisal inputs for the typologies tested.

7.10 There are also some allowances for S106, where it is likely these maybe sought for travel planning, public transport or highways. These are not routinely sought by the council, so there is limited evidence (one s106 agreement) on which to base the figures.

Table 7.3 Other costs

Cost type	Assumption	Notes
Professional fees and contingency	10% of build costs	incorporates all professional fees associated with the build, including fees for designs, planning, surveying, project managing and contingency
Sales and letting	3% of GDV	includes any agent and legal costs and inclusive of arrangement fees
Developer return	15% of GDV	general standard in strategic assessments for non-residential development

Cost type	Assumption	Notes
Interest rates (debit only)	6%	
Stamp Duty Land Tax	As per HMRC rates	n/a
Void/rent free	Various allowances for voids/rent free periods have been made for each case study.	n/a
EV charging points	£865/charger	Applied to 20% of parking spaces. LCC parking standards have been used to estimate parking spaces.

Non residential benchmark land values

7.11 The viability testing of the non residential development uses a standard residual value approach, which considers whether the value of development can meet all the development costs including a benchmark land value. This is a benchmark/threshold value which reflects a value range that a landowner would reasonably be expected to sell/release their land for development.

7.12 Establishing the existing use value (EUV) of land and in setting a benchmark/threshold at which a landowner is prepared to sell to enable a consideration of viability can be a complex process. There are a wide range of site specific variables which affect land sales (e.g. whether the landowner requires a quick sale or is seeking a long term land investment). However, for a strategic study, where the land values on future individual sites are unknown, a pragmatic approach is required. Our starting point for non-residential benchmark land values is to draw from the work undertaken to inform the residential values, and for the base and sensitivity testing the following values are used. Where the proposed use of the land is the same as the existing use then no premium is added for the lower benchmark. The benchmarks for some retail uses are higher than some residential benchmarks, reflecting the relative lack of suitable sites for some schemes.

Table 7.4 Non residential benchmark land values

Typology	Use	Description	Lower benchmark £/ha	Mid benchmark £/ha	Higher benchmark £/ha	Based on:
NR1	Office	Fringe and transport nodes	525,000	630,000	683,000	Higher brownfield existing use; +20%; +30%

Typology	Use	Description	Lower benchmark £/ha	Mid benchmark £/ha	Higher benchmark £/ha	Based on:
NR2	Office	Lancaster City	865,000	1,038,000	1,125,000	City centre brownfield existing use; +20%; +30%
NR3	Industrial	Fringe and transport nodes	226,000	271,200	294,000	Lower brownfield existing use; +20%; +30%
NR4	Warehouse	Fringe and transport nodes	226,000	271,200	294,000	Lower brownfield existing use; +20%; +30%
NR5	Retail convenience	Small local store	1,176,000	1,568,000	1,960,000	Paddock existing use of £39,200/ha x 30; x40; x50
NR6	Retail convenience	Supermarket	1,568,000	1,960,000	2,352,000	Paddock existing use of £39,200/ha x40; x50; x60
NR7	Retail comparison	Town centre	865,000	1,038,000	1,125,000	City centre brownfield existing use; +20%; +30%
NR8	Retail comparison	Out of centre/retail warehouse/park	1,568,000	1,960,000	2,352,000	Paddock existing use of £39,200/ha x40; x50; x60
NR9	Hotel	Budget/business	578,000	630,000	683,000	Higher brownfield existing use + 10%; +20%; +30%

Results of the non-residential testing

7.13 This section summarises results of the non-residential viability appraisals. As described, there are no policies that directly affect the viability of non-residential development, other than those around building standards, EV chargers and s106 – however the council want to understand the impact of these requirements as well as any scope for CIL.

7.14 The table below summarises the results from the detailed assessments for each non residential development type, with the viability headroom (and maximum potential) for CIL. The assessments can be found in Appendix M.

7.15 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However, there will also be development that is undertaken for specific commercial operators, either as owners or pre-lets. In these circumstances the economics of the development relate to the profitability of the enterprise accommodated within the buildings rather than the market value of the buildings. Therefore, it should be noted that while the testing suggests that some types of development are not viable or marginal, developments of these types may still be brought forward for individual occupiers to meet their specific requirements. In particular, if the required return is reduced to the level of a contractor return, then unviable sites may be marginal or (marginally) positive.

Table 7.5 Testing results

Typology	Use	Lower benchmark	Mid benchmark	Higher benchmark
		Headroom (£/sqm)	Headroom (£/sqm)	Headroom (£/sqm)
NR1	Office	-£1,293	-£1,308	-£1,315
NR2	Office	-£1,626	-£1,632	-£1,635
NR3	Industrial	-£784	-£797	-£730
NR4	Warehouse	-£621	-£634	-£641
NR5	Retail convenience	-£157	-£205	-£253
NR6	Retail convenience	£231	£101	-£29
NR7	Retail comparison	-£119	-£128	-£133
NR8	Retail comparison	£84	-£30	-£144
NR9	Hotel	£45	£40	£35

Employment - E (g) and B2/B8

7.16 None of these typologies tested produced a positive residual value. This is an expected result and commonly seen in other locations in England. This finding does not preclude the possibility

that an occupier will commission new premises with these uses but this will be prompted by business requirements rather than as a development proposition.

Retail E (a)

7.17 Town centre comparison retail and small convenience retail development is not viable. Out-of-town non-food retail warehouse development is viable at the lower benchmark land value but not viable at the mid or higher benchmarks.

7.18 The supermarket sector has witnessed significant change in the UK over recent years although investors continue to pay a premium for a supermarket lease based on investment benefits of the comparative long lease term, strong covenant tenant and in some cases fixed uplifts at rent review. Nonetheless many of the main "four" have not implemented expansion plans and have limited new store requirements. By contrast, the "discount" supermarket sector operating with smaller footprint stores remain very active within the market. The testing shows supermarkets are viable at the lower and mid benchmarks.

Budget hotels

7.19 Budget hotels are viable across all the benchmarks.

Other Uses

7.20 The viability testing has been based on the development expected to come forward and discussions with the development industry. It is acknowledged that there are other uses that could arise and it is recommended that the following approach is taken:

- Financial and Professional Services – treat as other retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Restaurants and Cafes – again treat as retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Drinking Establishments - again treat as retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Hot Food Takeaways - again treat as retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Selling and/or displaying motor vehicles - sales of vehicles are likely to occupy the same sorts of premises and locations as many employment uses and therefore the viability will be covered by the assessment of the viability of employment uses.
- Retail warehouse clubs – these retail uses are likely to be in the same type of premises as the out of town retail uses and covering the same purchase or rental costs.
- Nightclubs – these uses are likely to be in the same type of premises as town centre retail uses and covering the same purchase or rental costs.

- Scrapyards – there may be new scrapyard/recycling uses in the future, particularly if the prices of metals and other materials rise. These are likely to occupy the same sorts of premises as many employment uses and therefore the viability will be covered by the assessment of the viability of employment uses.
- Taxi businesses – these uses are likely to be in the same type of premises as town centre retail uses and covering the same purchase or rental costs. Therefore, they are covered by this viability assessment.
- Amusement centres – these uses are likely to be in the same type of premises as town centre retail uses and covering the same purchase or rental costs. Therefore, they are covered by this viability assessment.
- For community facilities that are ultimately paid for by the public sector such as community centres, health centres, hospitals and schools there is a relatively simple approach. The commercial values for community uses are £0 but there are build costs of around £2,400 to £2,900 per sq m plus the range of other development costs; with a net negative residual value. Therefore, we recommend a £0 CIL for these uses.
- Farm shops and garden centres are treated as other out of centre retail. It is anticipated that small scale ventures using existing buildings would not be liable for CIL while larger retail complexes in new permanent buildings would pay the out of centre retail rates.

7.21 Tourism is part of LCC economy. Regarding holiday accommodation we have taken the following approach:

- If the development consists of standard dwellings that the purchaser intends will be used for holiday accommodation then it would pay the standard residential CIL rate applying in that location
- If it is a single new build being used for holiday purposes it would likely come forward as custom/self-build and therefore CIL exempt
- Holiday parks and visitor attractions are not specifically included in the testing as generally there is little transaction evidence and they will vary hugely e.g. scope and scale of common facilities as well as the type of accommodation – from wooden lodges to more permanent structures, and a mix of outdoor and indoor facilities. In addition, holiday homes are liable for VAT while new residential dwellings are not. This means that depending on the owner's tax status, the build costs will be 20% higher. It is assumed that holiday parks will be zero rated for CIL.

Chapter 8 Sensitivity testing

8.1 Sensitivity testing is often used by development surveyors when undertaking viability appraisals, especially for site specific scenarios. Whilst it is less clear as to use of sensitivity testing for strategic plan wide viability assessments and it is of note that PPG does not specially advocate the use of sensitivity testing; it may be helpful to see the impact of an alternative position for some key assumptions to take account of different outlooks in respect of land value and the potential implications of time, given the plan period.

8.2 The residential testing results presented already offer some choice to the decision maker as to what an appropriate incentive might be to a landowner on any given site in respect of the uplift to be applied in setting a reasonable benchmark land value. This provides the decision maker the implications of the different incentives on the viability for each typology.

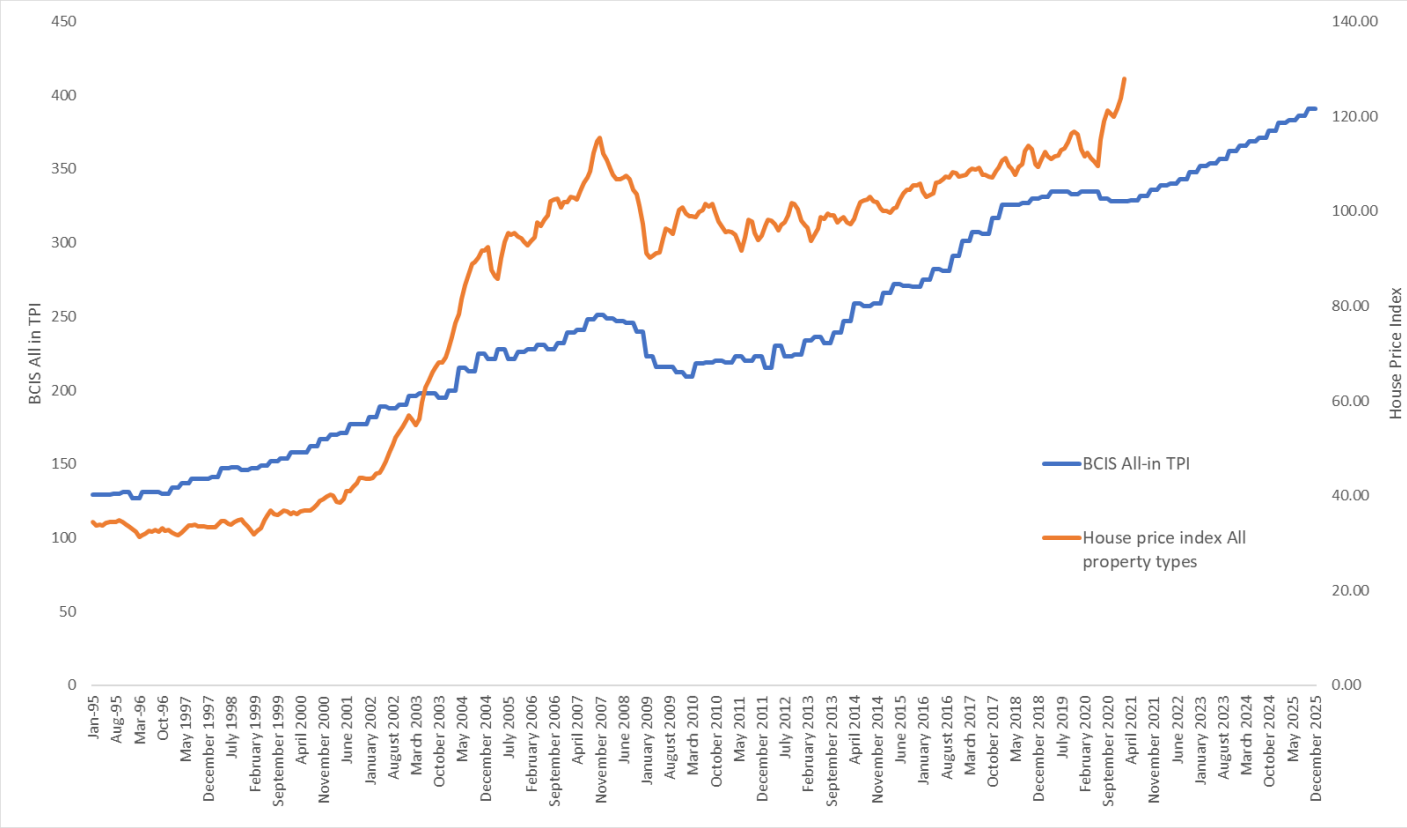
8.3 In respect of the impact of time, there is a requirement for a certain amount of 'crystal ball gazing' as no one knows what will happen in the future. However, there are some indicators that can be used to help illustrate both future residential costs and values, so that these can be modelled to show the implications and how sensitive or marginal any policy choices are at present.

8.4 One measure to help determine what future costs and values maybe is to use long term trends – these have the advantage of being based on what has happened in the past including various economic cycles of recession and growth. The three key indicators are:

- Market values - the House Price Index produced from actual sales from Land Registry in Lancaster – 1995 – 2020 Q4
- Affordable housing values (rents) – MHCLG Registered Providers rents for Lancaster – 1997 to 2020 Q4
- Costs - the BCIS All in TPI, which is informed by submitted tenders – 1996 – 2020 Q4

8.5 The following graph illustrates the trend over the past 25 years:

Figure 8.1 Long term trends for values and build costs



8.6 Using these data sources and assuming that increases in values and costs follow the same pattern the average annual increases for Lancaster are as follows:

- Market and Shared Ownership values – 5.4%
- Affordable housing rents – 3.2%
- Construction costs – 3.9%

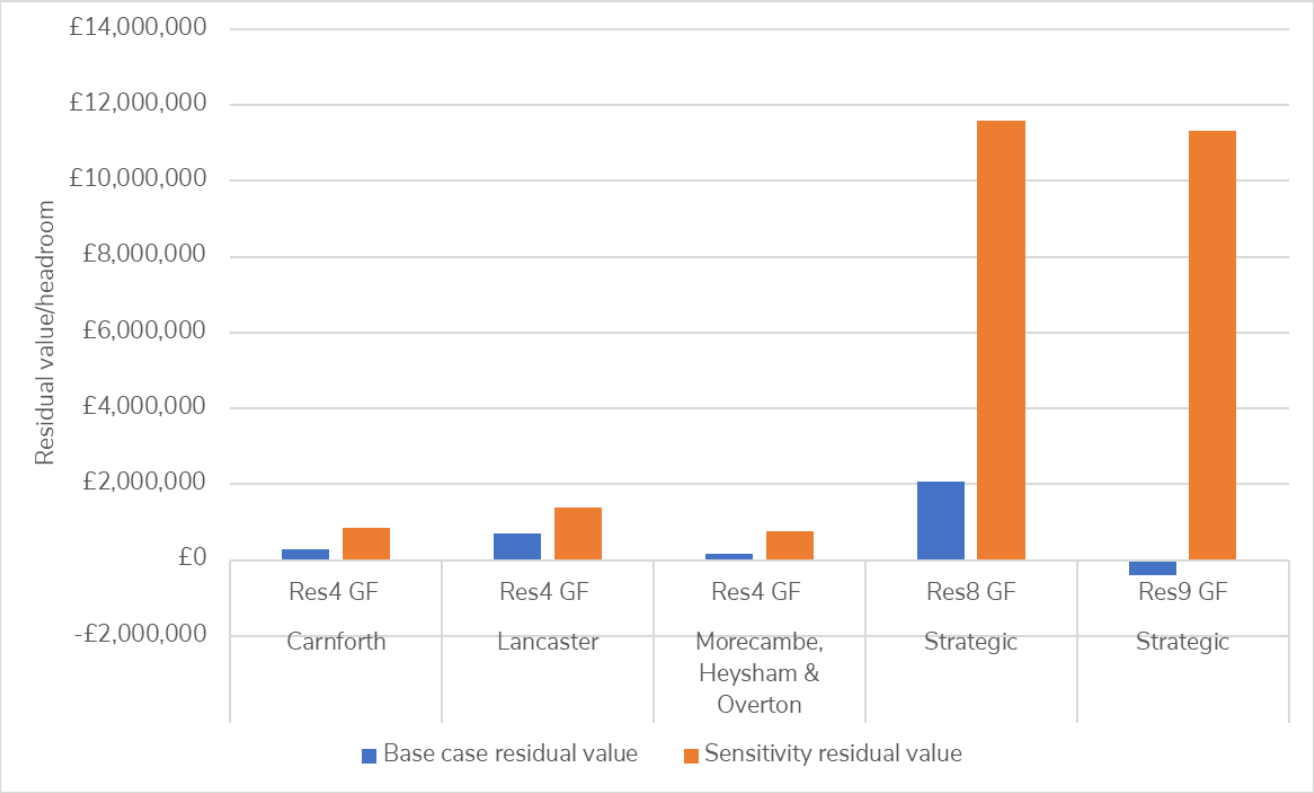
8.7 The values for market and affordable housing are increased on an annual basis up to and including 2025. The cost increase is applied to build costs, allowances for infrastructure, mitigation and S106 to and including 2025. The increases are undertaken in combination as it would be highly unlikely (for example) that values will rise with no increase in costs – and this pattern is also illustrated in the previous graph showing the long term trend over the past 25 years, where values and costs have generally risen and fallen together.

8.8 As the 'future time' sensitivity tests are illustrative they have not been undertaken for every typology, benchmark land value or building standard. Instead, they are focused on the strategic

sites as the main contributor to supply and Res4GF as a possible 'typical' site in the urban value areas – given that there is limited supply anticipated from the rural areas.

8.9 The following graph illustrates the difference in residual value (headroom) between the base current costs and values and with the future increases to both costs and value. By 2025 it can be seen that the viability will improve significantly, suggesting that the council can be more assured of bringing in tougher policy requirements as the plan moves forward in time.

Figure 8.2 Sensitivity testing results



Chapter 9 Conclusion, policy approach and CIL

Approach

9.1 In coming to a view over policy requirements and setting an appropriate CIL charge, the council will need to consider whether the Plan is reasonable, viable and consistent with national guidance in the National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG) and whether a CIL schedule is compliant in legal terms with the 2008 Act and 2010 Regulations (as amended). The policies in the plan should not put at risk the delivery of the plan overall and in terms of CIL, to fulfil relevant legislative requirements, the charging schedule should set an appropriate balance between helping to fund necessary new infrastructure and the potential effects on the economic viability of development across the district.

9.2 There is no prescribed approach to setting either policy requirements or a CIL rate and the council will need to be informed by the viability evidence but does not have to follow prescriptively the results of the testing. A judgement needs to be made based on a range of factors that are specific to Lancaster City Council and ultimately the balance between policy requirements, funding infrastructure and delivering the plan. Therefore, a number of considerations will need to be taken into account:

- Development values – the council should be mindful of the variances in values across the district. In terms of housing supply, whilst the highest values and therefore best viability can be found in rural areas, this is a very limited part of the supply. The majority of supply is in the mid-range housing value area in and around Lancaster City – therefore viability in this area should be the focus.
- Types of sites to come forward – the remaining supply is focussed on large scale development at the strategic sites in and around Lancaster City. Other forms of development such as flatted schemes are not as important to the future supply.
- The underlying driver for the plan review is to address the climate change emergency, therefore the council has indicated that this is a priority. However, the council has also indicated that it does not want to revisit the housing supply or affordable housing proportions.
- The supporting evidence on the review of potential standards and technology to address climate change (as set out in Appendix A).

9.3 Whilst viability of the plan is the focus of this report, the council also needs to consider the approach to CIL. In coming to a view on CIL the council should consider:

- Simplicity of charging zones – the guidance suggests that CIL should be easily understandable and minimise the need for multiple charging zones and development types.
- Market shock. The contributions that could be sought from development based on the viability tests are in excess of those that the council has traditionally collected through s106

on non strategic sites. A large step change with the introduction of CIL, could potentially have an effect on future delivery.

- The attitude to risk and future policy requirements – this manifests itself in terms of the level of benchmark land value and the building standard to be used in coming to a view on appropriate levels of CIL.
- Strategic sites – Evidence from the Peace[35] review, based on practice, suggests infrastructure provision for strategic sites is best dealt with through s106. The majority of impacts are localised and delivery of mitigation is more assured through s106 mechanisms where funding is ringfenced. Reliance on CIL funding could delay infrastructure provision on strategic sites and ultimately housing delivery putting the Plan's strategy at risk.
- Strategic sites - The council need to consider whether an addition of CIL on top of a s106 contribution on strategic sites would put at risk the delivery of the plan, especially if there is uncertainty regarding the future s106 package, which could be higher than that which is tested.
- Rural exception schemes generally rely on cross subsidy, using the sale of a small number of market dwellings to enable the development to go ahead – a CIL rate on the market elements would simply require more market housing for the cross subsiding.
- Buffer – whilst there is no method prescribed to setting the CIL rate, guidance does suggest that the rate should not be at the margin of viability. In other words, the CIL rate should not generally be set the same as the total headroom available – a buffer should be incorporated. The buffers used in other CIL studies have varied, but generally fall around 30-50%.
- Reasonableness – some councils (and Examiners) have come to a view that a CIL rate which costs no more than 5% of GDV is generally acceptable and unlikely to put development at risk.

Plan policy

9.4 A range of policies have been identified as having an impact on viability, however some of these are minimal and others such as affordable housing or the combined local and government requirements (e.g. proposed building standards changes, ev charging and biodiversity net gain) have a greater impact. Given that the council is not in a position to challenge government requirements, their main decision making is around whether they can set higher building standards ahead of the government – with the associated implications of this on development viability.

[35] Government commissioned review of CIL - A new approach to developer contributions: A report by the CIL review team, Chaired by Liz Peace – Para 4.1.5

Residential development and policies

Current position

9.5 As with the viability evidence that supported the recently adopted Local Plan, it has been found through this study that the majority of development is viable across the district at all levels of benchmark land value, with:

- the current 2013 building standards
- adopted Local Plan affordable housing requirements
- s106 allowance of £4,400 per dwelling for all sites of 10 or more dwellings
- biodiversity net gain allowance (£1,137 per unit greenfield & £242 per unit brownfield
- ev charging points at £865 per charging point
- standard assumptions for build and site costs, fees and finance
- additional s106 and site cost costs for strategic sites.

9.6 The exception to this is flatted led development and older persons development which, although tested with no affordable housing, is shown to be unviable using the assumptions set out in this report. This development may still come forward over the plan period if, for example, developers wish to take a lower return or land is purchased at a lower cost. However, it is recommended that affordable housing is not sought from these types of development. Any available headroom should contribute to meeting improved building standards.

Moving forward with improved building standards

9.7 As explained building standards are changing with the new 2021 standards due to be in operation by mid 2022. When applied, the 2021 standards increase build costs by around 4% which, whilst lowering the headroom across all schemes still shows a positive viability outcome on most sites.

9.8 As the 2021 standards are being brought forward through building regulations and will be required at a similar time to the Local Plan review adoption, it is not necessary to seek a specific planning policy update to adopt the new standards.

9.9 The testing has shown that a 'fabric first' approach, using Passivhaus or equivalent, can be achieved with the same cost increase (at 4% on current cost) as the introduction of the 2021 standards. This suggests that the council could use a fabric first approach to get much closer to achieving net zero carbon (operational) position.

9.10 In testing the potential Future Homes Standards it is clear that viability is more challenging across a wide range of sites, including importantly the strategic sites, which are a key contributor to future supply. Even at the lowest benchmark land value with the 2025 Future Home costs added, the sites are marginally unviable. The 2025 standards are reliant on an (expensive)

technical approach to reducing impacts. These bolt-ons would mean the housebuilders could continue to build in much the same way as now but would be reliant on technological solutions to reduce their carbon emissions. It is questionable whether the supply chain will be in place to meet these standards by 2025 or whether cost will come down.

9.11 However, whilst the fabric first approach is clearly the most efficient option to address climate change, it will require new approaches to housebuilding and housing design and the housebuilding industry may not be in a position to immediately switch to a new approach. In addition to ensuring the necessary skills are in place, many of the major housebuilders in particular will be required to change their 'design book' which will mean total design changes rather than small adjustments and technology additions. These two processes of design and implementation will take some time, therefore it is recommended that the council use a staged approach so that fabric first approaches are required by 2025 at the earliest. This provides the development industry with time to adjust and allows the public sector the opportunity to assist with investing in skills. In addition, the sensitivity analysis shows that by 2025 the headroom should be improved and therefore more scope to offset any cost increases.

Non residential development and policies

9.12 Given the relationship between build costs and gross development values, many non-residential typologies within LCC are not viable. This mirrors the situation elsewhere in England and has been the case for many years. Historically, public sector funding has part addressed the viability gap, or development has only proceeded where there has been surety and/or at an extremely slow pace.

9.13 Future new forms of grant funding may assist with delivering new non-residential development, although the typologies tested do not include an allowance for development/gap funding grants. This is likely to be an evolving situation over future years.

9.14 Adopting BREEAM Excellent standard has overall limited impact on viability. If adopted such a standard is unlikely to negatively impact upon the deliverability of development. In some cases, developments are occurring where our testing shows a very limited lack of viability or where there is a special circumstance/owner occupier with a specific need. Adopting BREEAM Excellent is unlikely to adversely impact upon such development schemes.

9.15 Adopting BREEAM Outstanding typically carries a higher level of cost. Whilst this has not been formally tested, it is known that cost increases could be over 10%. Certain more viable forms of development such as supermarkets can, in some cases, absorb such costs. However, it is likely that for the majority of typologies, incurring BREEAM Outstanding costs may have an impact upon the delivery of such developments. Also, it is of note that in some locations there are likely

to be physical constraints in respect of achieving BREEAM Outstanding, due to location/connectivity and provision of public transport for example.

9.16 The commercial property market is slowly adjusting to improved efficiency of buildings and as this continues, the cost savings of an energy efficient building will increase the values achieved in the market over time. However, the building is only part of an occupier's energy consumption and will depend upon the nature of occupation and processes within the building e.g. many processing activities will themselves have a much greater energy consumption than the other aspects of occupying the building.

9.17 The costs of including provision for the slower (fast) charge electric vehicle charging points are comparatively modest in relation to the quantum size of the typologies/development schemes tested. As a preliminary view, inclusion of such electric vehicle charging points is realistic/justifiable.

9.18 Provision of quick (rapid) charge electric vehiclepoints and more extensive cabling (in advance of future electric vehicle charging points) may incur additional costs that could impact upon the delivery of some developments, although it seems likely that in many cases the revenue opportunities will mitigate these costs.

9.19 Therefore, it is considered that non residential development is less impacted by policy, which in viability terms has a greater impact on residential development. It is not considered that the draft policy will unduly impact non residential development coming forward.

Community Infrastructure Levy rate setting

Residential rates

Residential zones/types

9.20 In terms of simplicity it is recommended that any geographic or use type variance in CIL rate should as far as possible follow boundaries set out for application of affordable housing policy and any strategic or specialised sites. The current area boundaries for affordable housing and strategic or specialised sites are:

- Carnforth, Lancaster and Rural West (may need to be separated for CIL purposes)
- Morecambe, Heysham and Overton
- Rural East
- Forest of Bowland AONB and Arnside and Silverdale AONB
- North Lancaster and East Lancaster strategic sites (additional sites may need to be added)
- Specialist housing - older persons housing
- Specialist housing - PBSA (student accommodation)

9.21 There is a question as to whether the Carnforth, Lancaster and Rural West area should be separated out for CIL. This will be considered below.

Basis for setting a residential CIL

9.22 The testing shows the impact on viability with a range of different tests around benchmark land values and building standards. Given that CIL is being introduced for the first time and that it will come forward during a change in building regulations, it is considered that the cautious approach to CIL setting should use the middle benchmark land value 2 and include the additional costs associated with introducing the 2021 building regulations.

9.23 The viability results suggest that there is no scope for CIL to be charged on older person housing or 100% flatted schemes. No further analysis will be undertaken on these types of sites and they should be £zero rated for the purposes of CIL.

9.24 In setting the CIL rates we first take a weighted average (total headroom divided by total CIL liable floorspace) for each of the CIL zones suggested above in para 9.20. To this we then set out what we consider is a minimum buffer of around 30% and also show what it would be at around 50% buffer (Table 9.1). The resulting potential CIL rate range is then sense checked against whether it would be within 5% of total GDV for each typology (Tables 9.2-9.4).

Table 9.1 CIL weighted headroom by potential charging zone

Potential CIL charging zone	Weighted headroom	30% buffer	50% buffer
Carnforth	£97	£68	£48
Lancaster	£217	£152	£108
Morecambe/Heysham/Overton	£60	£42	£30
Rural west	£279	£195	£140
Rural east	£195	£137	£98
Arnside & Silverdale / Forest of Bowland AONB	£268	£187	£134
Lancaster strategic sites	£12	£9	£6
PBSA	£149	£104	£75

Table 9.2 Urban residential typologies % of GDV with potential CIL rates

Typology	Carnforth %GDV		Lancaster %GDV		Morecambe/Heysham/ Overton %GDV	
	£68	£48	£152	£108	£42	£30
	30%	50%	30%	50%	30%	50%
Res1GF	2.8%	2.0%	6.1%	4.4%	1.8%	1.3%
Res2BF	3.0%	2.1%	6.2%	4.4%	2.0%	1.4%
Res 2GF	3.0%	2.1%	6.2%	4.4%	2.0%	1.4%
Res3BF	2.7%	1.9%	5.7%	4.1%	2.0%	1.4%
Res3GF	2.5%	1.8%	5.4%	3.8%	1.8%	1.3%
Res4BF	2.7%	1.9%	5.7%	4.1%	2.0%	1.4%
Res4GF	2.5%	1.8%	5.4%	3.8%	1.8%	1.3%
Res7BF	2.7%	1.9%	5.7%	4.1%	2.0%	1.4%
Res7GF	2.5%	1.8%	5.4%	3.8%	1.8%	1.3%

Table 9.3 Rural residential typologies % of GDV with potential CIL rates

Typology	Rural west %GDV		Rural east %GDV		Arnside & Silverdale / Forest of Bowland AONB %GDV	
	£195	£140	£137	£98	£187	£134
	30%	50%	30%	50%	30%	50%
Res1GF	7.9%	5.6%	5.4%	3.9%	3.6%	2.6%
Res2BF	7.7%	5.5%	5.5%	3.9%	4.8%	3.4%
Res 2GF	7.7%	5.5%	5.5%	3.9%	4.8%	3.4%
Res3BF	7.1%	5.1%	4.7%	3.4%	4.7%	3.3%
Res3GF	6.6%	4.7%	4.4%	3.1%	4.7%	3.3%
Res4BF	7.1%	5.1%	4.7%	3.4%	4.7%	3.3%
Res4GF	6.6%	4.7%	4.4%	3.1%	4.7%	3.3%

Table 9.4 Strategic and student residential typologies % of GDV with potential CIL rates

Typology	Strategic %GDV		Typology	PBSA %GDV	
	CIL - £9	CIL - £6		CIL - £104	CIL - £75
	30%	50%		30%	50%
Res8GF	0.3%	0.2%	STU1BF	3.49%	2.49%
Res9GF	0.3%	0.2%	STU2GF	3.49%	2.49%

Recommended residential CIL rates

9.25 **General housing** - There are clear differences within the Carnforth, Lancaster and Rural West affordable housing zone and therefore these should be considered separately**.**

9.26 In terms of **Lancaster** the viability work suggests that a CIL rate can be charged for standard residential development. It is recommended that £100 per square metre CIL would be appropriate as this would still leave just over a 50% buffer in terms of the average scheme. In terms of individual typologies only the 15 dwelling scheme may become marginal but an improved mix of dwellings or use of lower benchmark land value would allow for the CIL charge and development to proceed and without putting at risk other plan policies.

9.27 The areas of **Morecambe, Heysham and Overton** and **Carnforth** do not have as much headroom as Lancaster or the rural areas. Whilst Carnforth could have a rate of around £50 it is considered for the simplicity of the charging schedule and the limited reduction in CIL income that a common rate of £30 per sqm should be charged across both these areas. Similar to Lancaster, the rate would mean that typologies for 6 and 15 units maybe more marginal, however a change in mix or application of the lower benchmark land value would improve the viability of these schemes without effecting delivery or other planning policies.

9.28 In **the rural areas**, especially the AONB and rural west the council could set a substantial CIL rate, even with a 50% buffer. As can be seen, in rural west in particular the typologies would attract a total CIL charge that is above 5% of GDV. If the Council were minded to keep within the 5% figure and wanted a simple charging schedule then the CIL rate should be lower than the 50% buffers in rural west and the AONB areas – therefore is recommended that a figure of £100 per square metre would be appropriate.

9.29 For the **strategic sites** there is not currently enough headroom to support a meaningful CIL on top of the potential S106 package already allowed for within the testing. Therefore, in line with

many CIL schedules and also the findings of the Peace Review, the strategic sites should be £zero rated.

9.30 **Flatted development** - separate testing was undertaken for 100% flatted development. It is clear from the results that flatted development will need to be zero rated. An approach where different rates have been set for flatted schemes have been submitted and approved through public examination for other charging authorities. For example, at Basingstoke the Charging Schedule sets a zero rate for 'wholly flatted schemes' which are defined as being 100% of the dwellings on the site are flats and makes clear that this excludes flats as part of a housing mix on other sites. Therefore, there is precedence of separating out flatted development from other forms of residential uses.

9.31 **Rural exception** schemes are an important policy aspiration but require careful management to minimise the inclusion of market housing. The inclusion of CIL could lead to a greater number of market units being required to facilitate development. As the purpose of the policy is to maximise affordable housing it is considered that the council should set a zero CIL rate for this specific use or clearly define that Rural Exception Sites, regardless of tenure are affordable housing schemes for the purpose of CIL. There are examples of this elsewhere which have been successfully introduced following public examination, including Cornwall CIL.

9.32 **Older person** housing including care homes are not viable and are unable to support a CIL.

9.33 **Student accommodation** is viable in Lancaster and is able to support a CIL. Based on a weighted average of the two schemes tested at the mid benchmark land value the potential maximum CIL is £149/sq m. With a 30% buffer the rate would be £104/ sq m (equivalent to 3.5% of GDV) and with a 50% buffer the rate would be £75/sq m (equivalent to 2.5% of GDV).

9.34 Given a desire for simplified zones it is considered appropriate to set 4 rates across Lancaster district for residential development:

- £100 per sqm for Lancaster, Rural West, Rural East, Arnside and Silverdale AONB Forest of Bowland AONB.
- £30 per sqm for Morecambe, Heysham, Overton and Carnforth
- £75 per sqm for PBSA
- £0 for 100% strategic sites, flatted development and older person housing

Recommended non residential CIL rates

9.35 Most of the non residential uses tested are unviable and therefore unable to support a CIL at the mid benchmark land value. The exceptions are supermarkets and budget hotels.

9.36 Supermarkets have a potential maximum CIL of £101/sq m against the mid benchmark land value. With a 30% buffer this would be £71/sq m (2.15% of GDV) and with a 50% buffer this would be £50/sq m (1.5% of GDV).

9.37 Hotels have a potential maximum CIL of £40/sq m against the mid benchmark land value. With a 30% buffer this would be £28/sq m (1.2% of GDV) and with a 50% buffer this would be £20/sq m (0.85% of GDV).

9.38 The CIL rates for non residential uses are considered as follows:

- £50 per sqm for supermarket (floorspace over 300 sqm)
- £20 per sqm for hotels
- £0 per sqm all other development

Appendix A – N

Please see separate technical appendices